

Background on Lawrence Smith

In 1983 **Lawrence Smith** leaves Crestar Bank and starts Essex Mortgage Co.- started as a small 2nd mortgage co – grew to financial services, mortgage banking. Also Essex savings bank – Elizabeth City, NC a thrift that attracted deposits from “affluent customers” – 1988 Smith formed Essex Financial Partners. In 1989 with Paine Webber Essex raised \$40 million in capital from sales of partnership units.

In 1991 – 1992 time frame Essex is hemorrhaging money... more than \$7 million in losses in 1991 alone – auditors express doubt’s about the “partnership’s ability to continue as a going concern”. Despite the loss of \$7 million in shareholders funds, Smith and the 7 other executive officers of Essex are paid \$1.15 million in cash compensation. Essex partnership units which had sold for \$20/share in 1989 are now worth \$5.25/share.

May 1992 – Paine Webber forms an investment committee and moves to oust Smith and take over control of Essex due to massive losses and threat of failure. (Apparently Paine Webber had recommended shares to its clients and stood to lose a great deal if Essex failed). Losses in first quarter of 1992 were \$2.8 million (on top of \$7+ million previous year). In addition Essex has \$23.8 million in non-performing assets as of 3/31/92. Paine Webber meets with regulators about change in management. (Unbeknownst to Smith)

Smith, however, refuses to leave Essex offices and has his attorney (**VINCE MASTRACCO**, KAUFMAN & CANOLES) get a temporary restraining order in Norfolk Federal Court to block Paine Webber’s actions.

Eventually, Smith and Paine Webber come to an agreement and Smith leaves Essex. (Along with his son **Fleet Smith** – who’s name will come up again later in reference to Resource Bank.) (Also, **Russ Kirk** was an attorney with Kaufman and Canoles prior to joining his buddy **Dan Hoffler** at Armada Hoffler – some say he was Mastracco’s protege)

During this same period Resource Bank is formed in 1988 – some of its initial investors include NANCY CREECH, HAROLD HEISCHOBBER, BUSTER O’BRIEN.

Resource loses money the 1st four years of its existence. In 1991 Resource loses \$2.17 million dollars, however, Buster O’Brien claims the bank has received “an infusion of fresh capital”, although he declines to say where it came from. (A July 18, 1990, VP article claims that Paul Tribble and “10 other Hampton Roads Investors” planned to buy a major stake in Resource. Tribble’s name doesn’t come up again, so we don’t know if this deal went through).

In November 1992 VP article announces that Lawrence Smith along with John Bernhardt

(ex. Sovran Bank Vice Chairman), and John L. (Jack) Gibson (ex. Pres of Dominion Bank) plan to take over managing the “ailing” Resource Bank. (Fresh off Lawrence Smith’s stunning success with Essex). Mike and I have heard that the regulators were very reluctant to allow Smith to manager another bank after the Essex debacle. These rumors are unconfirmed but one would hope that the regulators would have been wary.

VP article in Dec. 1992 reports Resource was ordered by State and Federal bank regulators to make changes in lending practices and improve capital ratios. “To Survive” bank is trying to raise \$3.5 million in new capital with sale of \$4 million new shares. Sells 288,195 shares to existing stockholders (we can only assume are insiders and friends) for \$1.65/share. The VP article indicates that brokers said the buyers of the stock were individuals who knew Smith, Bernhardt and Gibson. (Insiders) These original 288,195 shares bought for \$1.65/share if held until RB merger with Fulton Financial would have netted \$9 million in profit to the owners. In addition, the additional 3,711,805 shares sold at \$1.75/share to new investors in 1992 – earned a net profit of over \$100 million dollars if held until the sale to Fulton on April 1, 2004. Smith admits in this article that he plans rapid expansion of assets (3 times its existing size). Says he expects to do this by making commercial loans up to \$1 million – I question how he could do this since the banks legal loan to one borrower limit in 1996 was only up to \$1 million. In fact, in January 1996 that limit was \$850,000. VP Article in 1999 admits that Resource bank was about to be seized by the regulators in 1992 when Smith came aboard bring his \$3.5 million in capital raised from “friends”.

In December 1993 Lawrence Smith along with Paine Webber and others is the target of a class action suit brought by investors in Essex Financial. The investors claim mismanagement by Smith as CEO led to the losses incurred. The shares purchased by the investors at \$20/share were now worth \$1-\$1.50/share. In September 1994 Paine Webber settles the class action suit by agreeing to forgive Essex debt.

In mid to late 1995 Resource Bank signs on with Private Business Inc to market its “Cash Flow Maximizer” program. In Aug/Sept. 1995 Resource contacts us at AGM Development and offers the program. We decline at that time. Resource Bank tells us we are in the target market (construction) and were recommended by a member of their Board of Directors – Boo Twohy of Capital Concrete (Capital just happens to be AGM’s largest supplier, and creditor). Finally in January 1996 AGM signs on to CFM program (modified by the bank to meet our specific needs). Resource loans AGM \$3.5 million initially – when it’s loan to one borrower limit is \$850,000. Over the next 3 ½ years AGM borrows and REPAYS \$50 million from Resource Bank. Our bank contact, Mary Smith, tells the board of directors at one time that Resource is making 5% net on our loans. This amounts to profit of \$2+ million over 3 ½ years. AGM is one of Resource’ largest borrowers. Program runs the same way from January 1996 until August 1999 when Resource shuts down AGM and accuses us of fraud. During this period Resource income

grows as does stock value from approx. \$12.00/share in April 1996 to \$18.50 (after a split) in August 1999. The addition of AGM's approx. \$15 million per year in deposits, 5% net return on loans, and \$50 million loaned and repaid cannot have hurt the growth of this small "community" bank.

More Lawrence Smith Info - During the period 1975 to 2000 Lawrence Smith was also on the Board of Directors of Heilig-Myers Furniture. In August 16, 2000, Heilig-Myers filed for bankruptcy protection, even though a June 16, 1999, article in the Richmond Times Dispatch was entitled "Home Furnishing Chain Heilig-Myers has Bright Future, Chief Says". At an annual Shareholder meeting in June 2000 stockholders were told that the company's prospects "remain positive" even though board meeting minutes from May 17, 2000 show the board met with a bankruptcy attorney and discussed filing chapter 11. Investors filed a lawsuit against Heilig Meyers' accountants', its top management and 4 of its board members personally. Again, this list included Lawrence Smith. The suit alleged that the board failed to disclose to stockholders that the company was insolvent and facing bankruptcy. Lawrence Smith sat on the Board with **DOUG WILDER** – who joined in 1997.

So in the period from 1992 to 2000 – Lawrence Smith has been sued twice personally by stockholders of companies he controlled or of which he was the director for mismanagement and failure to disclose. In addition, had the truth about AGM's situation been revealed to regulators and stockholders he would have faced another lawsuit in that the stock of Resource Bank fell from \$18.25 on August 5, 1999 (the day before AGM closed its doors) to \$8.50 on December 28, 1999 after news of its loss on AGM's loans became public. Of course most of the stockholders of Resource were insiders or friends of insiders.