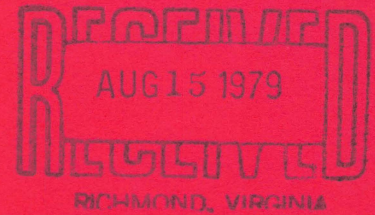


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CLERK  
SUPREME COURT OF VIRGINIA



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IN THE  
**Supreme Court of Virginia**  
AT RICHMOND

---

RECORD NO. 790912

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SHENANDOAH SAVINGS & LOAN ASSOCIATION

Appellant

v.

FRONT ROYAL SAVINGS & LOAN ASSOCIATION  
and STATE CORPORATION COMMISSION

Appellees

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JOINT APPENDIX  
Volume II

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prefiled testimony.

COMMISSIONER BRADSHAW: It will be so received.

MR. LARGENT: What was the exception?

MR. THOMSON: Updating the traffic volume on the prefiled testimony.

BY MR. THOMSON: (Continuing)

Q Now, would you give us that figure?

A Yes, sir. On August the 14th, the Department of Highways and Transportation issued a memorandum giving the twenty-four hour traffic volumes for the corner of Commerce Avenue and 6th Street in Front Royal, this being nearly a year later than the initial survey, finds the traffic for the twenty-four hour period at eleven thousand four hundred fifty. And just by way of information --

MR. THOMSON: Hold on a minute. We would like to offer this as our first exhibit, this group.

THE BAILIFF: That will be 2.

COMMISSIONER BRADSHAW: We are going to accept his prefiled testimony as LCP-1, or Exhibit 1.

And 2 will be the amendment.

1  
2  
3 ARNOLD M. WILLIAMS, a witness called by  
4 and on behalf of the Applicant, Front Royal Savings and Loan  
5 Association, having first been duly sworn by the Bailiff,  
6 testified as follows:

7 DIRECT EXAMINATION

8 BY MR. SCHOTT:

9 Q Would you please state your full name and  
10 your residence address, please?

11 A My name is Arnold M. Williams. I live at  
12 Route 2, Box 496, Front Royal, Virginia.

13 Q Mr. Williams, what is your occupation?

14 A I am employed by the County of Warren.  
15 I have been since 1974. At the present time I am Assistant  
16 to the County Administrator, and I serve in the capacity of  
17 Planning and Zoning Administrator to assist the County Planning  
18 Commission as Secretary to the Board of Zoning Appeals and I  
19 am Chairman of the Warren County Highway Safety Commission.

20 Q Mr. Williams, what is your relationship  
21 to the Applicant, Front Royal?

22 A I am presented a Director and have been  
23 since 1968.

24 Q Mr. Williams, could you tell us how much



Williams - Direct

150

stock has been sold by your association at this time? That is the number of subscribers and total volume of subscriptions?

A As of October the 18th of '78 there are five hundred fifty-three subscribers, totaling eighty-nine thousand nine hundred seventy-one shares.

COMMISSIONER SHANNON: Eighty-nine --

WITNESS WILLIAMS: Eighty-nine thousand nine hundred seventy-one totaling a million one hundred twenty-two thousand one hundred thirty-seven dollars and fifty cents, of which one hundred sixty-three thousand three hundred and seventy-eight dollars and seventy-five cents has been paid in.

BY MR. SCHOTT: (Continuing)

Q How many of the subscriptions are held by persons who live and work in the Front Royal-Warren County area?

A Eighty-six percent of the subscriptions are subscriptions of residents in the Warren County area and eighty-five percent of the shares are held by people living in Front Royal-Warren County.

Q Can you give us any information concerning

1 the types of people that have subscribed to your stock?

2 A Yes. We've had quite a broad cross-  
3 section of persons in Front Royal and Warren County subscribe  
4 to the stock. And I have a list of them just briefly that I  
5 would like to read and give the Commission some idea as to  
6 what type of persons we are talking about.  
7

8  
9 MR. TROY: It seems to me as though we are  
10 getting fairly comparative here, Your Honor. I have  
11 an individual who we will put on who is the President  
12 of our corporation who can testify, for example,  
13 that as a real estate attorney he knows that there  
14 are a lot of real estate closings, et cetera, et  
15 cetera.

16 But to start saying that our group is of  
17 such a caliber, investors versus their caliber,  
18 I thought we were going to postpone that, because  
19 if we get into this --

20 MR. THOMSON: It's a problem, Your Honor,  
21 but at the same time, convenience or necessity  
22 that we are trying to meet does -- and the Commission  
23 now is telling you that when you file this application  
24 they want the stock sold in the area and they want it

1  
2 And there is some possibility of overlap  
3 but I think with respect to this particular question  
4 of public interest this is all relevant.

5 MR. THOMSON: When we come back, we agree  
6 with the same thing. We ask that we have the right  
7 to cross-examine their witnesses on this question  
8 in the comparative sense when we come back at a  
9 later date, if we come back.

10 COMMISSIONER BRADSHAW: Does that satisfy  
11 you, Mr. Troy?

12 MR. TROY: Yes, Your Honor, if it's  
13 understood I can reserve any cross-examination.

14 COMMISSIONER BRADSHAW: Sure.

15 MR. TROY: Thank you.

16  
17 BY MR. SCHOTT: (Continuing)

18 Q Mr. Williams, could you begin again on the  
19 breakdown for the Commission the subscriber list by occupation  
20 of Front Royal Savings and Loan Association?

21 A Yes. We've broken the list down of the  
22 subscribers of Front Royal Savings and Loan in approximately  
23 eleven or twelve different categories. And to start with,  
24 government employees, that's five point five percent; retired



1  
2 persons is eight point two percent; teachers are two point  
3 one; secretaries are two point one; clerks are nine point  
4 six; housewives, one point four; self-employed persons,  
5 eighteen point six; sales, four point nine; real estate,  
6 two point one; professional persons, nine point four; blue  
7 collar employees, fifteen point one; and the medical field,  
8 two percent; construction, four point one; students, seven point  
9 six; and, then, of course, we had a category of seven point  
10 three percent that was a little bit more difficult to characterize  
11 so we just put that into miscellaneous.

12  
13 COMMISSIONER BRADSHAW: Do lawyers and  
14 doctors come under miscellaneous?

15 WITNESS WILLIAMS: No. I think we put  
16 doctors under the medical field, sir.

17 COMMISSIONER BRADSHAW: How about lawyers?

18 WITNESS WILLIAMS: I think we probably  
19 put those under professionals.

20  
21 BY MR. SCHOTT: (Continuing)

22 Q Mr. Williams, what is the proposed capitali-  
23 zation of Front Royal Savings and Loan Association?

24 A The certificate of incorporation provides

1 who showed some interest in the latter part of the summer  
2 of 1977.  
3

4 Thereafter, the corporation was formed,  
5 subscriptions were solicited, and a Board of Directors was  
6 elected from those -- a substantial group of subscribers.

7 Q Mr. Adamson, what is the authorized capital  
8 of Shenandoah Savings and Loan Association?

9 A The capital authorized by the Articles  
10 of Incorporation is one hundred twenty thousand shares.

11 Q How many of those shares have been authorized  
12 by the Board to be subscribed today?

13 A Excuse me. Let me go back to your previous  
14 question. The par value of which is ten dollars per share,  
15 or a capitalization of one point two million dollars.

16 Q I apologize for cutting you off. My second  
17 question is: How many of those authorized shares have the  
18 Board of Directors authorized to be subscribed today?

19 A The Board of Directors authorized initially  
20 sixty thousand shares with the first offering circular which was  
21 printed and issued with those shares that was fully subscribed  
22 in a period of approximately thirty days; an additional twenty  
23 thousand shares was authorized by the Board of Directors and a  
24 second offering circular printed for the issuing of those shares.

As a result of the Commission Staff advising that additional capital would be necessary, those were subscribed in approximately thirty to forty days, and a final twenty thousand shares was authorized by the Board of Directors and a rescission offering circular and subscription circular of some twenty-eight pages in length was sent to all of the subscribers of Shenandoah Savings and Loan, and the entire one hundred thousand shares that has been authorized by the Board has been subscribed.

Q Mr. Adamson, how many of the -- well, let me ask you this. How many subscribers are currently -- strike that question.

How many people have subscribed for shares of Shenandoah Savings and Loan? How many individuals?

A Five hundred thirty-seven individuals, I believe.

Q How many of those either live or work or live and work in Warren County-Front Royal area?

A It is in excess of seventy-five percent of that total, both in terms of dollar amount and in terms of the amount of people.

Q All right. I would like to go back a moment to this rescission offering which was employed to solicit the remaining shares to bring the total up to one hundred



Several of the most obvious -- and your question I think said commercial or industrial, and, of course, the --

Q Retail. You've discussed some industrial.

A Or retail. For example, Front Royal has one major shopping center called the Royal Plaza Shopping Center. That shopping center probably within the past two years has experienced more growth in terms of new business than it has since the time it was originally developed.

In fact, we discussed locating within the shopping center with the developers of the shopping center when we were looking for a location for the proposed Shenandoah Savings and Loan. And Safeway has located -- and I believe this figure is correct -- but I believe it is a relatively substantial, something in the neighborhood of -- I think there was a figure stated before which I am trying to recall. I think it is ninety thousand square feet. I'm just trying to think -- I believe that is a little bit large. I think it was probably more in the neighborhood of twelve to fourteen thousand square foot facility. I think the ninety thousand square foot grocery store is a little bit large. I believe fourteen is probably more correct.

A brand new Safeway was constructed within

provide us with a brief summary of the occupations and community involvement of your directors?

Top of Page 4.

A David L. Wines, born, raised and has lived his whole life in Warren County. This is David Wines. An accountant by trade, he has been the owner of Wines Bookkeeping and Secretarial Service in Front Royal since 1968.

He is the past President of the Front Royal Jaycees, past Chairman of the March of Dimes, and was named Front Royal-Warren County Outstanding Young Man in 1970.

In addition, he is active in the Elks, the United Methodist Church, Kiwanis Little League and Midget Football.

Kent E. Coons, who is with us, has lived in Warren County since he was seven years old. He is presently the owner and operator of Kent's Pizza Shop.

He is a member of the Board of Directors of the Chamber of Commerce, Loyal Order of the Moose, Elks Lodge, Front Royal Country Club, and the Industrial Authority Commission.

The next gentleman isn't with us, is

Samuel J. Baggarly. His mother and father -- they were sick yesterday. He might be in a little later on.

Samuel J. Baggarly has lived in Front Royal all his life. He is the Manager of Gilliam Lumber Company in Front Royal. He is an active member of the Elks, Front Royal Jaycees and Browntown Community Center.

Frank Brumback, who was sick himself the night before last, is not with us and he said he may be here. I'm not sure -- and he is not with us now.

Frank Brumback, although a resident of Winchester in neighboring Frederick County, owns a farm in Warren County. He is a farmer, Vice-President of Woodbine Farms in Winchester, and a banker, being the President of the Board of The Bank of Frederick County.

His activities include the Frederick County Planning Commission and Board of Southern States Cooperative.

J. William Gilliam is a resident of Clifton, Virginia, who has long roots in the Front Royal area. He is a practicing attorney, a partner in the firm of Gilliam, Sanders, Brown and Horan.

Arnold Williams, who is not with us either, he is the Assistant County -- Assistant County



Executive Administrator in Warren County and they had to meet with HUD today on something relative, you know, some business.

Arnold Williams has been an employee of Warren County since January, 1974, and has been Assistant to the Warren County Administrator since 1976.

He also serves as Planning and Zoning Administrator to assist the County Planning Commission as Secretary to the Board of Zoning Appeals, and he is Chairman of the Warren County Highway Safety Commission.

Francis "Red" Hall, who is with us, has lived in Front Royal all his life. He is the owner of Hall's Polyclean and Speedwash Coin-Op Laundry in Front Royal.

He is President of the Lions Club, a member of the Front Royal Town Council, Order of the Elks, a representative of the Town of Front Royal Planning Commission.

As you see, our roots are deep in the community. Besides Bill Gilliam and Mr. Brumback, we all live in Front Royal. The Gilliam family has roots in the Front Royal area. Four of our members were born in Front Royal. All but Mr. Brumback are graduates of the Front Royal School System.

Q

If you will, next turn to Page 7.

Have you located a potential Chief Operating

1  
2 Officer who can direct the technical aspects of your proposed  
3 savings and loan operation?

4 A Yes. Mr. James A. Hight has agreed to  
5 serve as Chief Operating Officer and Chairman of the Board  
6 of our proposed association.

7 He is presently Chairman of the Board of  
8 the Bank of Virginia-Warren, formerly Bank of Warren. He has  
9 been active in the real estate lending aspect of banking for  
10 over thirty years.

11 He is a resident of the Front Royal  
12 area and is active in civic matters there.

13 Q Turn next to Page 8 and Question 18.

14 Can you tell us how much stock has been  
15 sold as of this time and the number of subscribers and the  
16 total dollar volume of subscriptions?

17 A As of December 13th, 1978, we had  
18 subscriptions from five hundred forty-seven subscribers  
19 for eighty-nine thousand zero one shares of stock, totaling  
20 one million one hundred fourteen thousand five hundred thirty-  
21 seven dollars and fifty cents in anticipated capital, one  
22 hundred sixty-one thousand four hundred thirty-eight seventy-  
23 five of which has been paid in.

24 Q How much of the subscriptions are held by

1  
2 directors?

3 A Direct subscriptions for twenty-two  
4 thousand two hundred fifty shares.

5 Q How many of these subscriptions are held  
6 by persons who live and work in the Front Royal-Warren County  
7 area?

8 A Approximately eighty-six percent of our  
9 subscribers show residence in Front Royal or Warren County.  
10 Viewed from the number of shares, eighty-five percent of  
11 shares have been subscribed by persons in the Front Royal  
12 area.

13  
14 MR. THOMSON: I would like to call  
15 attention to the Commission, on Page 9, this  
16 gives a breakdown on the allocation of stock  
17 and how it is held by various and sundry types  
18 of people, including three percent of the  
19 Association's stock which is held by minority  
20 subscribers.

21 BY MR. THOMSON: (Continuing)

22 Q Turn next, if you will, to Page 10 and  
23 Question 25.  
24



What has been your expenses and income situation to date?

A Through December 31st, 1977, which was our last audit, we earned nineteen thousand one hundred fifty-five dollars and thirty-nine cents in income, thirteen thousand three hundred nineteen dollars and thirty-nine cents from interest and five thousand eight hundred thirty-six dollars from rentals.

Our expenses through such date were eighteen thousand eight hundred ninety-three dollars and twenty-seven cents, giving us a net profit before taxes of two hundred sixty-two dollars and twelve cents. You can see, therefore, that we have not had to use one dollar of our subscribers' money through December 31st, 1977, to meet our operating costs.

We are, therefore, in good shape to finance the expenses we will incur in getting our association started.

Q Drop down to No. 29.

Where do you propose to locate the savings and loan association?

A The building will be built on the northwest corner of the intersection of 6th Street and Commerce Avenue,

Front Royal, Virginia.

Q What was the reason for picking this site?

A This corner has the most central location for the area which the savings and loan institution will serve. 6th Street Extended turns into Kendrick Lane. The combination of Kendrick Lane and 6th Street is the only east-west street in Front Royal that extends from the eastern boundary line to the western boundary line of the town.

It carries the majority of people who work in town from their homes to their work because it connects the industrial section and the residential sections of town.

Commerce Avenue carries transit traffic for Routes 55, 340, 522, and Interstate 66. Therefore, Commerce Avenue is the major north-south street through town.

There is presently a new bridge under construction on 6th Street which should even further increase the traffic flow at this location. Additionally, a new modern post office building is proposed for location on 4th Street, just two blocks from our proposed site.

We believe this location is the best one in town or in the County for a financial institution and it can truly accommodate the drive-in facilities that we propose.

In March, 1978, the Department of Highways and Transportation conducted a study of traffic patterns in our area. The study indicated a twenty-four hour traffic count for our site of eleven thousand four hundred fifty vehicles, whereas a four thousand one hundred fifty count at the Shenandoah site was indicated.

I might also point out that the other applicant's location is not on Commerce Avenue, but is, in fact, on Remont Road. This location is without the central business area of Front Royal, in a non-growth area, and the traffic is primarily those travelers leaving Front Royal.

Q Top of Page 13.

A The question is "Do you intend to purchase or lease the premises of this site".

Q Excuse me. That was my fault.

Do you intend to purchase or lease the premises of this site?

A We have purchased three contiguous parcels in 1973 and 1976 for a total price of fifty-six thousand. These three parcels contain adequate space for both a good size building and sufficient parking.

The existing structure is being demolished

1  
2 at this time and we plan to construct a free-standing building  
3 in its place. The anticipated construction cost and site  
4 improvement is estimated at one hundred twenty thousand.

5 While we have had our application pending,  
6 we have been able to lease the site and generate some income  
7 to defray our operating expenses, and, in fact, we are receiving  
8 a small cash payment for the removal of an old house located  
9 on part of our site.

10  
11 MR. THOMSON: Your Honor, that completes  
12 the testimony with the identification --

13  
14 BY MR. THOMSON: (Continuing)

15 Q I show you a copy of a letter and ask you  
16 if this was given to you by Mr. W. Leroy Corron?

17 A Yes, sir.

18 Q Were you asked to deliver this to the  
19 State Corporation Commission when he wasn't able to appear  
20 today?

21 A Yes, sir.

22  
23 MR. THOMSON: We would like to ask that  
24 this be admitted as an exhibit. I have copies

BY MR. TROY: (Continuing)

Q Did you have something else to say,  
Mr. Gilliam?

A No, sir.

Q Okay. Mr. Gilliam, let's go to Page 14  
of RSG-15, which is your prefiled testimony.

A You said 14 or 15?

Q Page 14 of Exhibit RSG-15.

On Page 14, you are indicating by your  
testimony here that your association has community orientation  
and support, large capital and the demonstrated ability to  
manage.

And you further indicate that the best  
evidence of the point is the extended period of time in  
organization without substantial loss of membership or  
direction.

Now, that is correct, is it not?

A Yes, sir.

Q Do you believe that?

A Yes, sir.

Q So that is your testimony?

A Yes, sir.

Q Now, Mr. Gilliam, I couldn't help but

1 notice that is word for word exactly what Mr. Pettit indicated  
2 in his prefiled testimony, and I was a little confused as to  
3 whose testimony that was.  
4

5 Did you write those words?

6 A The basic context, yes.

7 Q Well, did you write the basic context,  
8 then, for Mr. Pettit's testimony?

9 A No, sir.

10 Q Well, then, if you had the basic context  
11 of the words, how did the words come from Mr. Pettit's  
12 mouth before they came from your mouth?

13 A I don't understand that, sir. I wrote  
14 this and signed this paper here.

15 Q Did you look at Mr. Pettit's testimony  
16 when you wrote that?

17 A No, sir.

18 Q I see. So, it just happens to be coincidence  
19 that it's the exact same language as Mr. Pettit; is that correct?

20 A I would like to see Mr. Pettit's --

21 Q Certainly.

22 A -- if it's the exact same language. I  
23 didn't realize that.

24 Q Certainly. Mr. Gilliam, I'm going to hand

you a large sort of trial folder of mine --

A I'll probably keep it straight.

Q Thank you. And I'm going to show you Mr. Pettit's testimony, and this is his prefiled testimony. And I want you to read for me on Page 16 -- you see on Page 16 there is a circled language there.

A The first sentence is identical.

Q The first sentence is identical?

A Yes, sir.

Q How about the last sentence?

A The last sentence is identical, at the first and third sentence of this one is equal is the first and last sentence of that one. I believe I'm correct.

Q Identical, word for word?

A Yes, sir.

Q Coincidence?

A No, sir, it's not a coincidence.

Q So, who wrote the testimony on Page 14 of your prefiled testimony, RSG Exhibit 15?

A I wrote it.

Q You did not look at Mr. Pettit's testimony when you wrote that?

A No, sir, I didn't look at his testimony.



1  
2 Q And you want this Commission to believe  
3 that it was pure coincidence that word for word, sentence for  
4 sentence, every word is identical?

5 A Yes, sir. Basically, yes.

6 Q Okay, if that's what you want this  
7 Commission to believe, then, we will accept that.

8 All right. Could I have my trial folder  
9 back, Mr. Gilliam?

10 Now, Mr. Gilliam, you have indicated that  
11 you have an organization that has been very loyal to you and  
12 no substantial loss in membership. Do you have a copy of the  
13 RSG Exhibit 17, which are your Answers to Interrogatories?

14 A A copy of Answers to Interrogatories?

15 Q Yes.

16 A That's not prefilled, now that's Answers?

17 I don't have a copy in front of me.

18 Q The Answers you indicated you swore to the  
19 truth of.

20 A Yes, sir.

21 Q Mr. Gilliam, I'm going to read for you  
22 from RSG Exhibit 16 the question, Question No. 1, and the  
23 question was: State the name and address of each present or  
24 former subscriber to the capital stock of Front Royal.

Front Royal was defined as Front Royal Savings and Loan Association.

What is the answer that you gave to that question?

A Enclosed herewith is the shareholder list of Front Royal, Schedule 1. I believe it's called -- titled Schedule 1, I believe.

Q All right. And that is the schedule that is on the back, correct, Mr. Gilliam, showing --

A Yes, sir.

Q -- showing some five hundred and sixty-two names?

A Five hundred -- there is one name on the very tail end, Mr. Venable, somebody put in in pencil. I recollect Mildred Best as being the last name.

Q Uh-huh.

A The only name -- I know the whole list is correct up through five fifty-seven. But that five fifty-eight name I just don't recollect it.

But it's possible. It was five hundred and fifty-some names.

Q How about these other names here?

A They are all correct, yes, sir. That's

1 my handwriting.

2 Q Asa Burke, Marie Burke --

3 A Yes, sir. They were the people that were  
4 deleted. That is my handwriting there. That other isn't  
5 my handwriting. That's the reason I was wondering about it.

6 Q Okay. So that exhibit is your response  
7 to Question 1; is that correct?

8 A Yes, sir.

9 Q Okay. All right. Now, I am going to  
10 read you from RSG-16, that's my questions to you, Question  
11 No. 11. Question No. 11 was: State whether or not any  
12 person identified in response to Interrogatory No. 1 has  
13 requested -- that was the present and former subscribers;  
14 you recall that -- has requested Front Royal to cancel his  
15 subscription to its capital stock or to return all or any  
16 portion of any down payment made in connection with such  
17 subscription.

18  
19 Could you indicate for me the number of  
20 people who you identified in response to Question No. 11,  
21 please?

22 A I answered 11 by answering yes.

23 Q Okay. So, you answered yes. All right.  
24 No. 12 said if the answer to No. 11 is yes, then, describe what

1 Front Royal did in response to each request.

2 So you have indicated that some people  
3 asked to have their money back and how many people did you  
4 identify in response to the twelfth question?  
5

6 A George Irvin, Jr. subscribed for one  
7 hundred shares of stock in Front Royal with a deposit of  
8 one hundred twenty-five dollars, and he agreed to pay the  
9 balance later. He inadvertently mailed eleven hundred  
10 twenty-five dollars for the balance of his stock. The Board  
11 took action and returned him eleven hundred twenty-five  
12 dollars on February 16th, 1978.

13 Wallace and Elizabeth Partridge requested  
14 a refund of their deposit on March 25, 1978. The Board took  
15 action on April the 17th, 1978 to refund deposit after  
16 counsel advised us we could refund deposit to Mr. and Mrs.  
17 Partridge and a check was drawn on May the 1st, 1978 for the  
18 refund.

19 On June the 18th, 1978, Marie B. Burke  
20 and Asa C. Burke requested refund of their deposits. The  
21 Board took action and agreed to refund the Burkes' deposits  
22 and checks were drawn on September 11th, 1978.

23 Q So, you really refunded or cancelled the  
24 subscriptions of two families, correct, and then you gave one

1 individual back some money because he really didn't have to  
2 pay for his subscription in full; is that correct?

3 A Yes, sir.

4 Q All right. Let's go back to your prefiled  
5 testimony a moment, Mr. Gilliam. On Page 2 in answer to  
6 Question No. 5, you have indicated here that Front Royal  
7 had previously applied for a certificate of authority but you  
8 were denied because there was no public need; is that correct?

9 A After public hearing on September the  
10 24th, '73, the Commission denied our application on the  
11 basis of no public need for additional savings and loan  
12 facilities in the community. Yes, sir.

13 Q Did you write that?

14 A The basic text I agree with. Our  
15 attorneys write all the legal documents and I sign them.

16 Q I see. Is this a legal document?

17 A Yes, sir.

18 Q Okay. You think this is a legal document,  
19 then?

20 A Yes, sir.

21 Q Okay. I wasn't here in '72, Mr. Gilliam.  
22 Were you here?

23 A Yes, sir.

1 Q Okay. Did you testify at that hearing?

2 A Yes, sir.

3 Q The public hearing of September 24th,  
4 1973?

5 A Yes, sir.

6 Q And was there any other reason that the  
7 Commission denied the certificate of authority other than the  
8 fact that there was no need?

9 A No, sir.

10 Q Okay.

11  
12 MR. TROY: Your Honor, I would like to  
13 inquire, the original application of Front Royal  
14 Savings and Loan, I would like to insure that that  
15 is made a part of the record in this matter as well.

16 CHAIRMAN HARWOOD: Can you be more  
17 specific?

18 MR. TROY: Yes, I can. The original  
19 application -- and I can -- this is in the  
20 Commission's records and has attached to it a  
21 subscribers' list. And that list is what I'm  
22 about to go into, and is pertinent to this testimony,  
23 and I think the Commission certainly can take  
24

judicial notice of it.

CHAIRMAN HARWOOD: When was that filed, Mr. Troy?

MR. THOMSON: December the 1st, 1972, Your Honor.

COMMISSIONER SHANNON: That's what I wanted to get in the record.

MR. TROY: I have made extra copies, and I can --

CHAIRMAN HARWOOD: For ease of administration, if you would give the Bailiff one so it could be appropriately marked, we can take notice of our own files and records but sometimes generically referring leaves our clerk in a state of apoplexy in case of appeal.

And also, what I'm trying to nail down is the specifics of it, really. You intend to use the subscribers' list submitted on the date you mentioned to cross-examine --

MR. THOMSON: Might I make an observation so I can be clear for the record?

We were, in the Interrogatories, asked to furnish this information. We did not furnish it

1 because it is a matter of record and they could  
2 have gotten it just as easily as we could have.  
3

4 So I don't have any objection to him  
5 using it. But, at the same time, I don't want  
6 it used as a matter of tripping up the witness,  
7 because it was done by counsel that we did not  
8 furnish it, because it was accessible to them  
9 without us having to produce it.

10 CHAIRMAN HARWOOD: All right. That  
11 will be marked and received as Exhibit 18 in  
12 this case.

13 MR. TROY: Your Honor, I'm glad to  
14 receive that news, because it is news to me,  
15 because we asked in Interrogatory No. 1 for the  
16 present and former subscribers of Front Royal  
17 Savings and Loan. And now, for the first time,  
18 I'm told that not only could we go look at it,  
19 but I'm told right now we could go look at it.  
20 I thought they gave us a complete listing.

21 MR. THOMSON: We did, of the current  
22 application. And they have just as easy access  
23 to the former application as we did.

24 And under the rules of Interrogatories,



1 we're not required to furnish anything that's  
2 public information that they could get.

3 MR. TROY: I would have no objection  
4 to that, Your Honor, but I was never told or  
5 directed to go to the file. I was told that  
6 this was a complete answer to my question.

7 COMMISSIONER SHANNON: When was the  
8 current application filed, Mr. Thomson?

9 MR. THOMSON: In December of 1977,  
10 Your Honor, five years later. A little over  
11 five years later.

12 COMMISSIONER SHANNON: The first one  
13 is December '72?

14 MR. THOMSON: Yes, sir.

15 BY MR. TROY: (Continuing)

16 Q Mr. Gilliam, I'm going to hand you what has  
17 been marked as RSG Exhibit 18.

18 COMMISSIONER SHANNON: Do you have an  
19 extra copy?

20 MR. TROY: Yes, I do, Your Honor.

1  
2 BY MR. TROY: (Continuing)

3 Q Mr. Gilliam, you go ahead and take a  
4 look at that exhibit. I'm going to tell you that what it is  
5 is the list of subscribers that were attached to your first  
6 application.

7 Now, all these little check marks and  
8 things, Mr. Gilliam, are my handwriting. And you can ignore  
9 that.

10 Let me ask you this: Who is J. W. Gilliam?

11 A He's my brother.

12 Q Do you find his name on this exhibit,  
13 RSG Exhibit 18?

14  
15 MR. THOMSON: About two-thirds of the way  
16 down the first page.

17 WITNESS GILLIAM: Yes, sir.

18  
19 BY MR. TROY: (Continuing)

20 Q It shows he has five hundred shares  
21 originally; correct?

22 A That listing says five hundred shares,  
23 yes, sir.

24 Q Okay. Who is Samuel Baggarly?

1  
2 A Referring to my prefiled, he is Manager  
3 of Gilliam Lumber Company.

4 Q Browntown, Virginia. Where is Browntown,  
5 Virginia?

6 A Browntown, Virginia is just south of  
7 Front Royal. It's a little bit -- the entrance to Skyline  
8 Drive, it's a little bit to the right. It's a little  
9 community that I would say is about ten miles from Front  
10 Royal but it takes you twenty minutes, a half an hour to get  
11 there. It kind of weaves up on the side of the mountain.

12 Q Mr. Baggarly manages your lumber company,  
13 doesn't he?

14 A He manages the lumber company owned by  
15 my mother. It's a family business and myself, I own approxi-  
16 mately -- you know, I own a small percentage of it, less than  
17 around fifteen percent. Yes, sir.

18 Q Who else owns that lumber company?

19 A It's family, my mother, my brother and our  
20 minor children.

21 Q Your brother, J. W. Gilliam?

22 A Yes, sir.

23 Q And your mother?

24 A Yes, sir.

Q And you?

A Yes, sir.

Q And Mr. Baggarly works for the lumber  
company?

A Yes, sir.

Q Who is Roderick R. Gilliam?

A Yes, sir, that's my oldest son. He was --

Q All right. He had twenty shares originally;  
correct?

A Twenty. Twenty, yes, sir.

Q And Carlton C. Gilliam, who is that?

A That's my youngest son.

Q He had twenty shares, correct?

A Yes, sir.

Q And Sheldon S. Gilliam?

A That's my second oldest son. Yes, sir.

Q He's your middle boy?

A I have three sons; he's the middle one,  
right.

Q He had twenty shares?

A Yes, sir.

Q You treated them all --

A All equal.

Q All of them the same?

A Yes, sir.

Q Erbst Chrysler-Plymouth, what is that?

A That was a corporation that used to sell Chryslers and Plymouths in Front Royal that has ceased to sell and being an automobile dealership.

Q Do you want to say anything more about what Erbst Chrysler-Plymouth was?

A Its name now -- it has been a name change.

Q Uh-huh.

A It was an automobile dealership and now it's -- it was owned by another fellow and myself, Mr. Erbst, Gerald Erbst. I bought his interest out and changed the name to Realty Loan Corporation and they are really one in the same companies.

So, if you see Realty Loan on any of these old lists or Erbst Chrysler-Plymouth, that would be the same corporation.

Q Is Realty Loan on this list?

A I doubt it. This was before the name change, I believe.

Q I see. So that was your corporation; correct? You owned --

1  
2 A I own ninety-nine point nine percent.

3 Q Ninety-nine point nine percent of that  
4 corporation?

5 A Yes, sir.

6 Q That had one thousand three hundred  
7 sixty shares, correct?

8 A That had -- where is it?

9 Q On the very bottom of that exhibit.

10 A They put up seventeen thousand dollars,  
11 yes, sir.

12 Q That was one thousand three hundred sixty  
13 shares, correct?

14 A At twelve dollars and fifty cents a share,  
15 I guess it's seventeen thousand, yes, sir.

16 Q Yes, sir, it is.

17 A I put that up cash for Erbst Chrysler-  
18 Plymouth, which was my money. Yes, sir.

19 Q All right. Erbst Chrysler-Plymouth, did  
20 they go bankrupt by any chance?

21 A No, sir.

22 Q Okay. Mary E. Gilliam, who is that?

23 A That's my daughter that was just born  
24 two weeks ago, December --

BY MR. TROY: (Continuing)

Q Yes, sir, it is.

A Because I got six children and I treat them all the same, you know. But the other one isn't on here yet.

Now, where is Mary L.?

Q On the second page, approximately one-third of the way down. You see Mary E. Gilliam, 509 Warren Avenue.

A That's Margaret E. That's my mother.

Q Okay.

A She's the one that owns the lumber company.

Q Does Mary E. Gilliam own any stock in Front Royal?

A No, sir. That's -- the child was just born December the 4th.

Q Okay.

A That's -- what is today? Two weeks, this Monday, this past Monday.

Q Yes, sir.

A I intend, if I'm healthy, and this thing does go through, to give her an equal percentage like the rest of them.

Q Okay. So, Margaret E. Gilliam is your

A That's me.

Q All right. You had two thousand shares, correct?

A Yes, sir.

Q And Howard Gilliam, he is on the last page of that exhibit, in Phenix, Virginia. Where is Phenix?

A That's in a little county called Charlotte County.

Q Okay.

A And it's --

Q Who is Howard Gilliam, Sr.?

A -- it's south of Appamattox, and Howard Gilliam used to be the postmaster down there. He is my uncle.

Q He's your uncle?

A Yes, sir.

Q Does he still live in Phenix?

A I'm not really sure, because he's kind of retired. I think he is in Galax, Virginia now. I believe he has been to Atlanta. He lived in Atlanta and, then, he's -- he doesn't have to live anywhere. He is a widower. So, he lives in Phenix, Atlanta and Galax, Virginia. That's where another aunt is.



1  
2 Q Mr. Gilliam, on the last page, you see the  
3 total number of shares, it's nineteen thousand o ninety-one,  
4 correct?

5 A Nineteen thousand ninety-one shares, yes,  
6 sir.

7 Q Now, all those Gilliams that we just went  
8 through, they originally had ten thousand seven hundred ninety-  
9 five shares, Mr. Gilliam, or fifty-six point five percent.

10 Now, you don't think that had anything  
11 to do with you being denied a certificate before, did it?

12 A You say that they had ten thousand out of --

13 Q Ten thousand seven hundred ninety-five  
14 shares is what all that adds up to. That's fifty-six point  
15 five percent that the Gilliams had.

16 We didn't even go into the Board of  
17 Directors.

18 Now, you indicated -- your testimony  
19 is that this Commission found that there was no need and that  
20 that was the only reason that they denied you originally.  
21 You don't think that they had anything in the back of their  
22 minds that perhaps they didn't want a family-owned institution,  
23 do you?  
24

1  
2 MR. THOMSON: Now, what the Commission  
3 would have in the back of its mind is certainly a  
4 question this witness is not prepared to answer.  
5 I would object to the question in the form, but  
6 state the Order itself speaks for itself.

7 The Commission entered an Order and the  
8 only reason it did assign was the lack of need.

9 CHAIRMAN HARWOOD: Mr. Troy, we think  
10 that objection is proper. Only the Commission  
11 would know what --

12 MR. TROY: Okay. We stand on the facts,  
13 Your Honor, as they are presented.

14 MR. THOMSON: Or for, either way.

15 MR. TROY: Yes, sir.

16  
17 BY MR. TROY: (Continuing)

18 Q Mr. Gilliam, you indicate in your testimony,  
19 and you stated that there was, I think, the best evidence  
20 rule -- I'm not sure exactly -- the best evidence of your  
21 association's cohesiveness is length of time and no substantial  
22 loss of membership?

23 A Yes, sir.

24 Q Well, to save the time of the Commission,

BY MR. TROY: (Continuing)

Q Who is that?

A Sandra. You've got a check by her name as not being with us any more. And I'm sure she is, although it might be in the form of a joint subscription agreement instead of -- so, if you will make that exception, all the checks are right except her.

Q Certainly.

Mr. Gilliam, when did Front Royal become incorporated?

A The day we were chartered is in our application. It's in 1968, I believe. I stand corrected. It's somewhere in the year '68. It seems like we opened up a checking account in September of '68.

Q How about September 23rd, 1968?

A Sounds correct.

Q What was the name of the corporation that was formed at that time?

A First Virginia Savings and Loan Association.

Q And when did you apply for a certificate of authority? Wasn't it on December 1st, 1972?

A December -- I think it was written in here someplace, December the -- didn't I just see that someplace?

1  
2 December the 1st, 19 -- you-all were just talking about it.  
3 December the 1st, 1972 and, then, September -- isn't that  
4 somewhere?

5 Here, on December the 1st, 1972 Front  
6 Royal applied for a certificate of authority after a public  
7 hearing. That's in my Question No. 5.

8 Q I see. That's your testimony that you just  
9 gave, correct?

10 A This prefiled testimony.

11 Q Yes, sir. RSG Exhibit 15.

12 Now, you applied in the name of Front  
13 Royal Savings and Loan; is that correct?

14 A In 1972?

15 Q Yes. You didn't make application in the  
16 name of First Virginia Savings and Loan Association, did you?

17  
18 MR. THOMSON: If you remember.

19 WITNESS GILLIAM: I don't remember, but  
20 I believe we applied in the name of Front Royal  
21 Savings and Loan. There was a name change.

22  
23 BY MR. TROY: (Continuing)

24 Q Yes, sir, that's correct. Didn't you --

A Yes.

Q You changed the name?

A Before we came to hearing, yes, sir.

Q All right. Now, Mr. Gilliam, why did it take almost four years for you to apply for a certificate of authority to do business?

MR. THOMSON: Excuse me just a minute.

Your Honor, we are trying the first application that has been turned down for whatever reasons the Commission saw fit to do it. There's no reason to go back and do that.

This application began December of '77, and that's what the testimony should relate to for our hearing as to which one of us is better qualified to go forward.

MR. TROY: I think it's quite relevant what these people have been doing with various people's money, and it's what they are going to be doing with people's money in the future. That's going to be very pertinent to this Commission's decision.

MR. THOMSON: If the question is directed

to that, I withdraw the objection. That is if  
he's asking him what he's doing with the money.

CHAIRMAN HARWOOD: All right. Proceed  
on that basis, Mr. Troy.

MR. THOMSON: Tell him what you did with  
the money since you started in '68.

BY MR. TROY: (Continuing)

Q You started collecting money in '68,  
didn't you?

A Yes, sir. You want to know what we do  
with the money?

Q Yes, sir.

A We asked the Commissioner of Banking,  
Mr. Jones, at that time, what we could do with the money  
and he told us we could either invest it in a savings account  
or United States Government securities. And ever since  
that time we've invested it either in one or the two, either  
in savings accounts, insured. It had to be a savings account  
in an insured institution. I think that's the way he worded  
it.

And those were the two places he allowed  
us to deposit the money. We asked him what to do with it

1 because we didn't technically know.

2 Q Did he tell you you could invest it in  
3 real estate?  
4

5 A Yes, sir.

6 Q He did tell you that also?

7 A We asked him -- we asked the -- at the time,  
8 Mr. Cobb, if they could advise the corporation and our attorney,  
9 and they advised us that the corporation could buy real estate.  
10 You are referring to the site I assume.

11 You know, we got advice before we bought  
12 it. In other words, yes.

13 Q Did you invest in any other real estate?

14 A No, sir, just the site for the proposed  
15 savings and loan.

16 Q Okay. Now, the par value of your common  
17 stock of Front Royal is ten dollars, is that not correct?

18 A It is stated in our application, yes.

19 Q Do you know what the par value of your  
20 stock is?

21 A Yes.

22 Q What is it?

23 A Ten dollars. And it's stated in our  
24 application.

1  
2 Q That was the par value of First Virginia  
3 Savings Association as well, correct?

4 A Capital stock in First Virginia, I mean,  
5 First Virginia, which is Front Royal Savings and Loan was  
6 ten dollars, yes.

7 Q You changed the name in 1972, didn't you?

8 A Yes, sir.

9 Q From First Virginia Savings and Loan to  
10 Front Royal Savings and Loan?

11 A Yes, sir.

12 Q The subscription price for each share of  
13 stock is twelve dollars and fifty cents, correct?

14 A Under our present application, yes, sir.  
15 And the past application --

16 Q It was ten dollars, wasn't it, that is  
17 for First Virginia Savings and Loan?

18 A If you will, I will state what happened.  
19 When we first started out in 1968 we were advised by a previous  
20 attorney that we had to sell fifty thousand dollars worth of  
21 capital stock and we would go out and, like, if you wanted to  
22 buy a hundred dollars worth, ten shares at ten dollars, you  
23 would have to pay the money in and we would give you the stock  
24 certificates.



1  
2 So we sold the stock, fully paid, non-  
3 accessible, what it says on the certificate.

4 Then, as you can see, we had to hire  
5 Mr. Thomson as our attorney to go before the State Corporation  
6 Commission and he advised us that we would fill out this,  
7 recharter the corporation so that the stock sold for ten  
8 dollars par value and two dollars and fifty cents surplus,  
9 ten dollars to be credited to the par value and two dollars  
10 and fifty cents to be credited to surplus.

11 So we had to revalue the corporation,  
12 because on advice we couldn't -- you had to have a surplus  
13 account which we weren't, under our former attorney, advised  
14 of.

15 Q So you issued stock in First Virginia  
16 Savings and Loan, then, didn't you?

17 A We issued the stock certificates, yes, sir.

18  
19 MR. THOMSON: I would point out, Your  
20 Honor, this is the previous application. It has  
21 nothing to do with this current application.

22 MR. TROY: I think this all goes to the  
23 business judgment, Your Honor.

24 MR. THOMSON: It was done on the advice of

counsel, Your Honor, not business judgment. They had an attorney; he just gave them the wrong advice. It did get straightened out.

This current application is correct.

BY MR. TROY: (Continuing)

Q Is Erbst Chrysler-Plymouth a stock corporation?

A Yes, sir.

Q You never heard of putting a little money in capital surplus accounts?

A Yes, sir, I have.

Q Well, why didn't you do it for First Virginia Savings and Loan?

A We were advised by the then current attorney to sell the stock and put the money in the bank, which we asked Mr. Jones what to do with it.

Q Well, you didn't think that it would be a good idea to create a capital surplus account; is that correct?

A We went to our attorney, asked him for advice --

Q No, no. I'm talking about you as a businessman now, Mr. Gilliam. You have been in business,

correct?

A Yes.

Q You are involved with a stock corporation in Erbst Chrysler-Plymouth?

A Yes, sir.

Q And you didn't think it would be a good idea to create a capital surplus account?

A Are you speaking to me personally?

Q Yes, sir, you personally. You are President of this association, correct?

A Yes, sir. As for me personally, there are three kinds of surpluses. You got earned surplus, paid-in capital and those kinds that I didn't think that, you know, you had to set up surpluses, surplus accounts, because I never planned on losing money. You know, that's the reason I understand surplus accounts are set up.

So personally I've never been in a corporation that had a paid-in surplus account. But, in this particular corporation our attorney asked us to put a paid-in surplus account, that that's the way we were to handle it. That's the way you set up a corporation. And you start in with paid-in capital and that's the way the other banks and things I've seen since then, they start up with paid-up.

1 surplus.

2 But I never did before.

3 Q So, you accepted that because in your  
4 business judgment you never would go in a business and lose  
5 money; is that correct?  
6

7 A Not with intention, no, sir.

8 MR. THOMSON: Your Honor, this is really  
9 getting absurd. We are talking about an application  
10 now that was back in '72. And the application was  
11 denied. We are talking about trying one today,  
12 and the application has the paid-in surplus there.  
13

14 What happened back in '72 really doesn't  
15 have any bearing, or '73, on what we're talking  
16 about today.

17 MR. TROY: Your Honor, I don't blame  
18 them for not wanting to go back to '72. This  
19 all relates to exactly what we are on, business  
20 judgment. What is the business judgment of these  
21 people.

22 Now, if you had before you two savings  
23 and loan institutions that had a track record,  
24 certainly this Commission, I know, would feel more

1 comfortable because you had a track record upon  
2 which to judge. You don't have that track record  
3 in this situation.  
4

5 What do you have to judge other than the  
6 business acumen of these individuals, as it has  
7 existed in the past?

8 MR. THOMSON: I dare say, Your Honor,  
9 that nobody informed, the bank or savings and loan  
10 today, knows what the requirements are. What you  
11 must do until they get to an attorney or an  
12 economist who has proceeded in one of these before,  
13 many of your regulations today are not written down  
14 anywhere. Unless you have worked with the Commissioner  
15 of Banking, you don't know your required capital  
16 status because the Code is talking in terms of a  
17 minimum of fifty thousand dollars. How would an  
18 individual layman be expected to know what he is  
19 supposed to fund, much less set up outside surplus  
20 and undivided profit accounts because nowhere,  
21 absolutely nowhere, in the law, or regulations,  
22 will you find it. If you don't go to an attorney --  
23 he happened to go to the wrong one and got the  
24 wrong advice.

1  
2 I say again to you, businesses that  
3 are incorporated do not set up surplus accounts,  
4 only those that are regulated do. And when he went  
5 to an attorney who had experience in this, it was  
6 done.

7 MR. TROY: I enjoy my profession very  
8 much, Your Honor. I think it's a very honorable  
9 profession, but it's not a profession that makes  
10 each and every business judgment of each and every  
11 day. That's up to these individuals. And it's  
12 their track record.

13 Nothing Mr. Thomson is going to do is going  
14 to exonerate this type of track record.

15 And I think it's very relevant to this  
16 Commission's determination.

17 Let me go on, if I may.

18 CHAIRMAN HARWOOD: I think the question  
19 is an appropriate question if it is to business  
20 judgment. But his explanation all along has been  
21 that it was done on advice of counsel.

22 I just don't know how far we go with  
23 each -- when you start bringing members of each  
24 prospective Board up and giving him an examination

on corporate structure and financing, we may never get out of here.

So let's see if we can't keep it a little shorter.

MR. TROY: Yes, sir.

BY MR. TROY: (Continuing)

Q Mr. Gilliam, what happened to the stock of First Virginia Savings and Loan Association?

You indicated that you had issued stock, correct?

A Certificates of paid-in --

Q And you issued the stock --

A Sir?

Q It wasn't your subscriptions, it was stock that you issued?

A It was a stock certificate. They've got on there capital stock, authorized capital.

Q What happened to those? What happened to that stock?

A We issued somewhere between ninety and one hundred certificates.

Q You issued forty-one thousand eight hundred

ten dollars worth of stock of First Virginia Savings and Loan?

A I'm not sure on the amount of money, but we issued --

Q Let me show you the statement of stockholders' equity which was provided to me by your counsel.

Now, you see in the left-hand column --

A Okie-dokie.

Q What is the heading of the left-hand column?

A First Virginia Savings and Loan Association Common Stock Issue.

Q What is the bottom line figure on that column?

A None.

Q What is the next to bottom line?

A None. You are talking about --

Q Come on, Mr. Gilliam. What is the last figure in that column? Isn't it forty-one thousand some odd dollars?

A Not at the bottom line. That's up here. It's forty-one thousand eight hundred and ten.

Q That's the amount of stock that was issued in First Virginia Savings and Loan, correct?

A This was made up by our accountants, I



believe, of Yount, Hyde & Company, and they said that we issued forty-one thousand eight hundred ten. I did not actually check the accountant's records.

Q What happened to the stock?

A The stock was turned back in.

Q How did you buy back the stock?

MR. THOMSON: He didn't testify he did buy it back.

BY MR. TROY: (Continuing)

Q All right. I'm sorry. It was turned back in?

A Yes, sir. Those --

Q And you paid money for it?

A We gave the man a certificate.

Q Yes, sir.

A Like it was ten shares for one hundred dollars.

Q Yes, sir.

A He would turn it back in, that certificate, because we weren't supposed to have certificates out.

Q I'm confused. You issued stock.

1  
2 A We issued stock on advice of our first  
3 attorney.

4 Q So, now, you think that advice was wrong,  
5 is what you are telling us?

6 A Our second attorney told us to bring those  
7 stock certificates back in.

8 Q How did you get the stock certificate  
9 back in?

10 A We wrote the people a letter and asked them  
11 to bring them by and we would go under a form that was acceptable  
12 to the State Corporation Commission before we could file with  
13 the State Corporation Commission at a prior hearing.

14 Q Do you know it's illegal for a corporation  
15 to buy stock back in unless it comes out of capital or earned  
16 surplus accounts?

17 MR. THOMSON: If you know.

18 WITNESS GILLIAM: No, I do not know.  
19

20 BY MR. TROY: (Continuing)

21 Q You do not know that?

22 A No, sir.

23 Q You didn't have any capital surplus account,  
24

correct?

A We did not have a capital surplus account.

Q And you certainly didn't have any earned surplus account, did you?

A No, sir.

Q But you got the stock back in, correct?

A The stock certificates, yes, sir. And we gave each person that turned one in a right to buy stock, you know, the other way.

MR. TROY: The Commission will take judicial notice of 13.1-4 of the Code.

MR. THOMSON: We again point out that that applied to the previous application, has nothing to do with the present application.

BY MR. TROY: (Continuing)

Q All right, Mr. Gilliam. You have also indicated that you've done very well with this money and that you haven't used one dollar of subscribers' money; is that correct?

MR. THOMSON: As of what date?

Treasury notes.

Are you referring back in our first application?

Q I want to know where the money is now.

A The money right now?

Q Yes, sir.

A It is deposited in the checking account.

It is then money -- when it pays you so much over prime, drawing about nine point two or five, whatever the highest current rate of money market that you buy at the bank, and the money -- there is part of it in the F&M Bank of Front Royal on savings and I stand corrected, but I believe the other part is in First Federal Savings and Loan in Front Royal on savings. And we have had money in Peoples Bank on savings, and we have had money in the Bank of Virginia on savings. All of it in savings, of course, certificates of deposit.

Excuse me.

Q No U. S. Treasury bills?

A Not to date. Prior to our first application we were allowed to put the money and they paid about nine percent in 1970. They paid a high rate of return, more than the first mortgage I believe. In 1972 or '73 that is.

Q You didn't take, did you, a portion of

1 percent. And that's reflected in the application.  
2  
3 It's not anybody misleading the situation.

4 CHAIRMAN HARWOOD: Mr. Troy, did --

5 MR. TROY: I did not mean to imply --  
6 I'm talking about the president of the association,  
7 simply trying to find out if he knows what they  
8 are doing with the people's money that they have  
9 solicited and are entrusted to use wisely.

10 MR. THOMSON: But it's not twelve dollars  
11 and a half a share. They don't have that kind of  
12 money in the association.

13 That is a misleading impression of what  
14 income they have. They have about ten percent.  
15 Some subscribers have paid one hundred percent;  
16 some have paid as little as five percent. But  
17 total average is ten percent.

18  
19 BY MR. TROY: (Continuing)

20 Q Let's go on to that, Mr. Gilliam. Has  
21 anybody paid nothing for a subscription?

22 A No, sir.

23 Q Did you put up money for anybody, you  
24 personally?

A Yes, sir.

Q Who?

A My children.

Q Anybody else?

A No, sir.

Q Did you ever solicit stock and tell somebody that you would put the money up for them if, in fact, they would subscribe, that they didn't have to put the money up?

A Not to my recollection, no, sir.

Q Now, you've qualified that answer. You say not to your recollection.

Let me refer you, Mr. Gilliam, to your Answers to Interrogatories, and that's RSG-17.

A Yes, sir.

Q Question No. 9 to you was -- the question, Mr. Gilliam, was whether there was any understanding with any person identified in response to Interrogatory No. 1 -- subscribers, in other words -- to give or loan such person the money to pay all or any portion of the subscription price, including any down payment, for shares of Front Royal capital stock subscribed by such person or to purchase such person's Front Royal stock at any time after Front Royal begins

1  
2 operations.

3 Now, it's a two-part question. Will you  
4 read for the Commission your sworn answer to that question?

5 A "There are no such agreements or under-  
6 standings, except that certain directors have agreed to buy  
7 or give money to their minor children for the purchase of  
8 stock."

9 I don't have any agreement with anybody  
10 to lend them money and they buy stock, or nothing like that.

11 Now, there are people that I have lent  
12 money to that might have bought stock in the association,  
13 but I have no agreement with anybody to lend them fifty dollars  
14 to buy fifty dollars worth of stock. I don't have an out-  
15 standing agreement.

16 There are people that owe me money.  
17 It's a small town. We have accounts receivable at the Royal  
18 Lumber Company which add up to a couple hundred thousand  
19 dollars, we'll say, maybe are people that owe the lumber  
20 company money that may have bought or may not have bought  
21 stock in this corporation.

22 I have no agreement with them to do anything  
23 like that. I don't know -- one dealing doesn't apply to the  
24 other.

They owe the company money, is all I can say.

Q You have no agreement that you will cancel that -- a debt that is owed, for example, to the lumber company in return for them subscribing to stock in Front Royal Association?

A No, sir.

Q Now, you said not to the best of your recollection before. Do you want to keep that qualification on that answer?

A The only one I know is any director, unless somebody else that's done it. I haven't. I haven't agreed to lend any money.

Q Let's talk about you personally.

A All right. I don't have any agreements.

Q No agreements? Did you ever make an offer that perhaps wasn't accepted?

A No, sir. I don't have any contracts or offers to get people -- say, that you buy stock in the corporation, you know.

Q What do you mean by contracts?

A A contract is either oral or written. Well, I don't have an agreement with anybody to lend anybody



A If you will refer to the audit statement that we presented to the Commission --

Q Yes, sir.

A No qualifications.

Q I'm sorry. What?

A No qualifications, all things as stated. The money goes into accounting fees, advertising, attorneys' fees, consultants' fees, depreciation as charged but it is no money spent for it, insurance, interest, office supplies and expenses, rental repairs and maintenance, SCC hearing expense, taxes, fees and license, telephone expense, that's where we put the money.

Q Well, now, I'm a little confused because you indicated that you didn't spend any subscribers' money, not one dime of subscribers' money.

MR. THOMSON: Oh, come on. For goodness sakes, the gentleman has testified time and again that he has paid the bills of the association and he has invested in savings certificates and treasury bills and counsel is just trying to confuse the issue by wandering all over the place on a fishing expedition.

It has nothing to do with which one of these groups is better able to serve Front Royal.

CHAIRMAN HARWOOD: Mr. Troy.

MR. TROY: I'm just trying to straighten out my confusion, Your Honor, as to --

MR. THOMSON: Counsel is not confused.

MR. TROY: -- as to where this money goes. Let me try to pursue it in a shorter way, if I may.

CHAIRMAN HARWOOD: Mr. Troy, I understood him to say -- and I think Judge Shannon did, too -- that the monies earned, or for whatever was deposited, had been invested and had been consequently spent for current expenses and what they have left over after doing that, as of the end of the year, was two hundred sixty-some dollars.

MR. TROY: That's the question I was just about to try to boil it down to.

BY MR. TROY: (Continuing)

Q Is that correct, Mr. Gilliam?

A Yes, sir.

Q In other words, the interest you earn on the

1  
2 money from the savings account you use that to pay for  
3 organizational expenses; is that correct?

4 A It has been, because we are at a profit  
5 stage right now. Yes, sir.

6 Q So, all of your expenses, therefore,  
7 are paid by the interest that you earn on the money that you  
8 put in the savings account; is that right?

9 A The rental income and the interest was  
10 nineteen thousand one hundred fifty-five dollars. Our  
11 expenses was eighteen thousand eight hundred ninety-three  
12 dollars. Our profit was --

13 Q No, no. I don't want to know what they are  
14 right now.

15 I just wanted to know -- in other words,  
16 yes or no, you are using the earned income, if you will,  
17 from savings accounts to defray organizational expenses?

18 A For the total in ten years it has been  
19 that our income exceeded our expenses. At times in there  
20 we have had our expenses higher than our incomes.

21 Q No, no. Just answer the question yes or  
22 no.

23 You are using -- and your counsel is  
24 telling you to answer yes; you can answer yes -- you are using

1 the interest that you earned on the savings accounts?

2 A Yes, sir.

3 Q And where you deposit the money --

4 A Yes.

5 Q -- you earned income on that savings  
6 and it is being used to defray organizational expenses,  
7 correct?

8 A Yes, sir.

9 Q Do you know that is a violation of  
10 regulations of the Federal Home Loan Bank Board?

11 A No, sir, I did not know that.

12 Q Did you ever check to find out if it was?

13 A No, sir.

14 Q All right. Now, you indicate now for  
15 ten years now you've been doing this and you have how much  
16 money?

17 A One hundred sixty-four thousand dollars,  
18 I think. You mean, how much money has been deposited in the  
19 corporation?

20 Q What is your bottom line on your financial  
21 statement as of the last audit, the last audited statement?

22 A The last audited statement, cash on hand as  
23 of December 31st, 1977 was one hundred eighteen thousand nine  
24

1 hundred ten dollars and forty-five cents.

2  
3 Q That's the bottom line. That's how much  
4 money you have?

5 A That's the total cash on hand as of  
6 December 31st, 1977. Now, you know, it has been -- this year  
7 we don't have a current audit.

8 Q You have an accounting degree, don't you?

9 A Yes, sir.

10 Q You are telling me that you have nineteen  
11 thousand one hundred fifty-five dollars and thirty-nine cents  
12 and no organizational expenses offset against that cash;  
13 is that correct?

14 A It was one hundred nineteen thousand  
15 and the account payable and accrued expenses as of that  
16 date, to offset against it, was eight hundred eighty-eight  
17 dollars and sixty cents.

18 Q Well, you have in front of you, don't you,  
19 statement of operations for the year ending December 31, 1977?

20 A Yes, sir.

21 Q Date of inception, which is September 23rd,  
22 1968, through calendar year 1977. You have income which you  
23 entitle "Income", nineteen thousand one hundred fifty-five  
24 dollars and thirty-nine cents; correct?

1  
2 A Yes, sir.

3 Q Offsetting your expenses of eighteen thousand  
4 eight hundred ninety-three dollars and twenty-seven cents;  
5 correct?

6 A Yes, sir.

7 Q Now, that really isn't income of nineteen  
8 thousand dollars; it's earned interest, correct? And that is  
9 rental income, correct?

10 A Correct.

11 Q So, you have a total surplus of two hundred  
12 sixty-two dollars and twelve cents before taxes, correct?

13 A I have one hundred eighty-nine dollars  
14 and one cent.

15 Q That's after taxes, right?

16 A After taxes.

17 Q So, in ten years now you've had these  
18 people's money. You are saying you haven't used a dollar  
19 and you have one hundred eighty-nine dollars; is that  
20 correct?

21 A We have one hundred eighty-nine dollars  
22 and one cent.

23 Q Net income after taxes?

24 A Net income. Now, if you go back up and

1  
2 add your depreciation, cashwise we have that nine hundred  
3 and seven. So, we've really got about a thousand some dollars,  
4 you know, cash money more in at that date than we would have  
5 expenses as of that date.

6 Q Now, does the current association have any  
7 stock outstanding?

8 A Yes, sir.

9 Q So, not only have subscriptions been  
10 solicited but stock has been issued; is that correct?

11 A Yes, sir.

12 Q What do you have in front of you now,  
13 Mr. Gilliam?

14 A The qualifications of a director. You have  
15 to issue stock.

16 Q I see. Do you want to cite me what that is?

17 A It says: The majority of the directors  
18 must be residents of Virginia. Each director must be the  
19 owner in his own name and have in his personal possession  
20 or control savings accounts or shares of capital stock in the  
21 association for which has been paid into the treasury of the  
22 association, not less than five hundred dollars. Such savings  
23 account or shares of capital must be unpledged except as  
24 required to be pledged to the Federal Home Loan Bank and

unencumbered at the same time of his becoming a director and during the whole of his term of such. A director who does not meet these qualifications automatically vacates his office.

So, we have issued stock.

Q So, you have issued stock?

A Yes, sir.

Q That says five hundred dollars worth, correct?

A At least five hundred.

Q And haven't you --

MR. THOMSON: Your Honor, this is the direct testimony. We prefiled this. I can't possibly see going over it and asking if that's true.

BY MR. TROY: (Continuing)

Q How much stock have you issued?

A I don't know the exact total right now. I could look it up and get it for you later on.

MR. THOMSON: The testimony is in there. It is five hundred dollars worth of stock to each of



1 the directors. It's right in the direct testimony.

2  
3  
4 BY MR. TROY: (Continuing)

5 Q Haven't you issued eighteen hundred shares  
6 of stock?

7 A There have been -- let me try to give you --  
8 there were two minors in the first subscription under the  
9 prior application. One is named John Greenwhite and his  
10 sister. And we haven't been able to locate them.

11 Now, they have two stock certificates  
12 outstanding under the name of First Virginia Savings and Loan.  
13 One has fifty dollars worth and the other has one hundred.  
14 And the mother and father are both deceased.

15 And we could not locate these two minor  
16 children. Now, those two people own stock certificates.  
17 I don't remember the amounts.

18 The eight directors as per the qualifications  
19 of a director own stock certificates and they've been issued.

20 If I had the stock records I could show you  
21 all of them, every one of them, if you want me to.

22 Q So, you have issued forty-five hundred  
23 shares of stock --

24 A I didn't say how many shares. I would have

1  
2 to get the records to verify the amount of shares outstanding  
3 right as of this date. I don't have it.

4 Q Well, your balance statement says there  
5 were one thousand eight hundred twenty shares of common stock  
6 outstanding for Front Royal Savings and Loan.

7 A As of --

8 Q December 31st. Does that include the  
9 two shareholders who you lost and can't find for First  
10 Virginia Savings and Loan?

11 A They were in there, yes, sir. That was  
12 in this audited statement.

13 Q So, you had two you lost and you can't  
14 find.

15 A We did not lose them. They moved somewhere  
16 and we can't find them.

17 Q Can't find them. Excuse me.  
18 Now, five hundred shares of stock has been  
19 issued to each director?

20 A Some have been issued. They are in varying  
21 amounts. It depends on how much money they paid in. The  
22 stock was issued at the value of twelve dollars and fifty  
23 cents per share to each director, how much ever he bought.  
24 And all of them bought over five hundred dollars worth.

MR. TROY: I fully agree.

COMMISSIONER SHANNON: You've had an hour and a half on cross-examination of this witness. This is much more than we give even in the VEPCO case. We give thirty minutes a party where we are talking about literally millions of dollars.

MR. TROY: Your Honor, I'm sorry. I will try to speed along.

COMMISSIONER SHANNON: Mr. Troy, if we don't, we're never going to finish this case.

MR. TROY: But, Mr. Thomson, Your Honor, is coming here and saying: We were here first in 1972. So he tries to take the plus side of that, that we were here.

Now, we start finding out what was happening in '72, oh, no, we're not supposed to look at '72 all of a sudden.

COMMISSIONER SHANNON: Mr. Troy, do you have any derogatory information on the applicants that you could put on through positive testimony rather than just delving into this cross-examination and going on a fishing expedition?

MR. TROY: I don't think we are fishing,

1  
2 Your Honor. I think we have -- let me not try to  
3 summarize right now. I will try to move it along.

4 COMMISSIONER SHANNON: We want to move  
5 the case along, because our docket is full and I  
6 don't know when we will continue this case to  
7 if we have to.

8 CHAIRMAN HARWOOD: I can tell you the  
9 practical effect of liquidation of anything.  
10 The lawyer is going to get what's left over  
11 and they're going to talk about negative amount  
12 anyway.

13 MR. THOMSON: I'm sorry you advanced  
14 that theory, Your Honor.

15 CHAIRMAN HARWOOD: I don't think two  
16 hundred thirty-some dollars is going to take  
17 care of the cost of liquidation.

18 MR. THOMSON: It should concern the  
19 directors in both of these institutions.

20  
21 BY MR. TROY: (Continuing)

22 Q Mr. Gilliam, you are aware, are you not,  
23 that Shenandoah Savings and Loan has indicated that it will  
24 not use one dollar of its subscribers' money if, in fact,

1 it is not granted a certificate of authority?

2 A Yes, sir.

3 Q You are aware of that?

4 A (Witness nodded in the affirmative)

5 Q Is that the same policy of Front Royal  
6 Savings and Loan?

7 A I don't know how to -- the approach would be  
8 distributed, but if we sold the real estate we stand to have a  
9 surplus, like, sixty thousand dollars plus a thousand dollars  
10 profit.

11 Our property has appreciated that much.  
12 So, we've got about a sixty-one thousand dollar profit in this  
13 corporation and it doesn't show it on the books. How that  
14 would be distributed, I've got no idea.

15 I welcome your suggestions. How they  
16 handle theirs, I don't know. You know, how they handle their,  
17 you know, their profit or loss.

18 Q All right. Now, you've indicated in  
19 1973 the Commission denied you a certificate of authority,  
20 that, in fact, you would come back a year later.

21 Why didn't you come back a year later?

22 MR. THOMSON: This is in the direct  
23  
24

1 testimony. He didn't come back because of the  
2 recession period. I mean, it is positive testimony.  
3 It's already in the record and we have prefiled  
4 it.  
5

6 MR. TROY: Your Honor, who is testifying  
7 here? I have a right to probe.

8 Every time I try to get into something,  
9 Mr. Thomson is going to tell me what's in the  
10 direct testimony.

11 MR. THOMSON: But, don't ask him a question  
12 he's put on direct. We admit that; we stipulate.  
13

14 BY MR. TROY: (Continuing)

15 Q Was it because of the recession you didn't  
16 come back?

17 A Yes.

18 Q How do you square that with your economist's  
19 testimony that Warren County was recession-proof?

20 A I don't have to square it with him.

21 Q So, basically, you've heard your expert  
22 testify, correct?

23 A Yes, sir.

24 Q And that he had a long association with

1  
2 you since 1973 and has been going with you all this time,  
3 correct?

4 A Yes, sir.

5 Q He indicated, and your counsel indicated  
6 in the testimony, that Warren County was recession-proof.  
7 Why did you not apply for a certificate of authority? You  
8 are holding people's money.

9 Doesn't that worry you? Doesn't that  
10 worry you that you have all these people's money?

11 A Yes, sir, it does. And I --

12 Q Don't you want to let them earn some  
13 income from their investment?

14 A Well, I figure they've made about sixty-  
15 one thousand dollars. I don't know what to do with it.  
16 That's the question.

17 And the thing about --

18 Q Now, you can't tell me they've earned  
19 any money until you tell me what you're going to do with it,  
20 and you say you can't tell me that.

21 A No, sir, I can't.

22 Q Why did you hold that money from 1972  
23 to 1978 and not apply for a certificate of authority, when you  
24 come into this Commission and say that Warren County is

1 recession-proof?

2  
3  
4 MR. THOMSON: 1977.

5 WITNESS GILLIAM: Can I answer? In 1972,  
6 when we were turned down we wrote everybody.

7 MR. THOMSON: 1973 you were turned down.

8 WITNESS GILLIAM: 1973 we were turned  
9 down. We wrote everybody a letter and offered them  
10 the right to take their money out of the association.  
11 Those people that asked for their money during the  
12 period of that time, we've always given them back  
13 one hundred percent of what they put in.

14 The economist, in 1973 -- and I'm not  
15 familiar with his testimony -- if he said there  
16 wasn't a recession in '73 or wasn't going to be  
17 one, that's his opinion. Our opinion was it was  
18 going to be a recession, and that's an honorable  
19 disagreement.

20 I figure he's got to take care of his  
21 business and I've got to take care of mine.

22 BY MR. TROY: (Continuing)

23 Q Okay. So, you made an independent business  
24



1                   A           A letter that -- this was in '77, what  
2 you are referring to here.  
3

4                   Q           Oh.

5                   A           Sir?

6                   Q           Okay. That's different?

7                   A           That was dissolved. That was dissolved  
8 on June the 1st.

9                   Q           Why was it dissolved?

10                  A           On technicality. We --

11                  Q           Okay. We will move it along. The  
12 technicality was you failed to pay your charter fee, et  
13 cetera, correct?

14                  A           You just filed the papers; you don't have  
15 to pay a fee.

16                               CHAIRMAN HARWOOD: I think it was failure  
17 to file annual reports in two successive years,  
18 and it was dissolved. If it was June 1st, automatically  
19 under the statute --

20                               MR. TROY: Yes, sir.

21  
22 BY MR. TROY: (Continuing)

23                  Q           So, that technicality lasted for two years.  
24

1  
2 You failed to file an annual report for two years?

3 A The technicality of failure to file,  
4 it was due on May 31st, 1977. I have a letter in my file  
5 that I wrote to the people down here and asked them why  
6 it wasn't reinstatement and they wrote me back and told me  
7 it was dissolved.

8 I talked to the gentleman on the telephone.  
9 We reinstated the corporation. He said to fill out certain  
10 forms and mail them in, and he would mail them to me.

11 And my letter dated to him, I think, was  
12 June the 10th. His reinstatement date was June the 23rd.

13 And I was advised in my office that it  
14 had been mailed and in my letter that I wrote the Commission  
15 on June the 10th I asked them what had happened to the thing,  
16 and they didn't know when I talked to them on the telephone.

17 So, they said to mail one hundred dollars,  
18 and I mailed one hundred dollars and it reinstated the  
19 corporation.

20 And, through either mails or oversight,  
21 a technicality, it wasn't reinstated because it isn't a --  
22 wasn't a working corporation at that time. We have no  
23 management team. We just do it. I don't get paid.

24 Q All right. David L. Wines is a director

of your Front Royal Association?

A Yes, sir.

Q Has he always been a director since its formation in 1968?

A I stand corrected. I believe that's true. It is filed in the Clerk's --

Q And he is an accountant by trade, correct?

A He runs --

Q And does he rent his office from you?

A Yes, sir, but he is moving. He is building a new building down the street and he is going to move into a pretty nice-looking building, too, I might say. He has made enough there to start off and do real good.

Q Okay. Kent E. Coons, you've testified he is the owner of a pizza shop, is that correct, or has he sold it?

A Pizza shop. Now, I don't keep up with Mr. Coons' business.

Q You just testified here under oath that he is presently the owner and operator of Kent's Pizza Shop and now you are saying you don't keep up with his business.

How can you testify under oath that he does that and now tell me you don't keep up with his business?

1  
2 A In selling real estate, sometimes the  
3 contract --

4 Q We're not talking about real estate.  
5 We're talking about testimony under oath before this Commission.

6 A He was working down there last week, and his  
7 name is on the place, Kent's Pizza Place. Kent's Pizza Shop.

8 Q So, you don't know whether he sold that  
9 shop approximately nine months ago?

10 A I do not know whether the money has  
11 transferred hands or whatever. He was working there and his  
12 wife was working there. You know, when the baby was born,  
13 that night I went down there.

14 Q And Mr. Hall, Francis "Red" Hall, what is  
15 his employment?

16 A Francis "Red" Hall, he is employed by the  
17 Town of Front Royal in one capacity and a Town Councilman;  
18 he is employed by Royal Palace Cleaners and he runs his own --  
19 what would you call it?

20 Q Coin laundry?

21 A Coin laundry, yes, sir. He has got two  
22 or three of them. I don't know.

23 Q Now, you've recognized on Page 6 of your  
24 testimony that there is some concern about the present director-

ships of your Board, specifically Mr. William Gilliam and Sam Baggarly. And we can also add, though you don't add it on this, you have Mr. Brumback, correct?

A Yes, sir.

Q He is presently a director, is he not, on another bank?

A He is a director on the Bank of Frederick County, yes, sir, Chairman of the Board.

Q Now, the question is whether you have any recommendation of what you are going to do with regard to the close association between yourself, your brother and Mr. Sam Baggarly.

I'm sorry. You indicate you do have a recommendation of what you will do?

A Yes, sir.

Q I'm a little confused as to what you will do.

MR. THOMSON: Well, if counsel will read the last sentence: We will take whatever action the Commission recommends.

1  
2 BY MR. TROY: (Continuing)

3 Q So, you don't have a recommendation?  
4 You are hoping the Commission will have a recommendation,  
5 is that correct?

6  
7 MR. THOMSON: That is correct. We will  
8 stipulate to that. That's correct.

9  
10 BY MR. TROY: (Continuing)

11 Q Now, Mr. James A. Hight, you indicate he is  
12 a Chief Operating Officer, or will be, is that correct?

13 A Yes, sir.

14 Q Do you have a contract with him?

15 A No, sir, gentlemen's agreement.

16 Q Does that gentlemen's agreement include  
17 a definitive salary?

18 A No, sir. He gave us a range but our  
19 salaries are set forth in the thing, Mr. Kyhros. We stated  
20 our salaries for the next two or three years when we prefiled  
21 with him, and his range is within our range.

22 So, we feel like we can work with him.

23 Q So, you hope to get him and you think  
24 you have a gentlemen's agreement in that you can in fact --

1  
2 A We don't hope to get him. He has agreed  
3 to come with us. He has presented his resume down here and --

4 Q Did he give you a written -- he did not  
5 give you a written application?

6 A He gave us a written resume which we have  
7 on file with the Commission, which is confidential.

8 Q His resume is confidential?

9 A It is passed on to the Commission. I guess  
10 it's public, whatever in here is public.

11  
12 MR. THOMSON: It was confidential at the  
13 time. Since then, Mr. Hight has announced his  
14 retirement from the bank. It is no longer  
15 confidential and it can be released so far as the  
16 Commission is concerned.

17  
18 BY MR. TROY: (Continuing)

19 Q Mr. Hight, in this gentlemen's agreement,  
20 said it was all right to release his name?

21 A Yes, sir.

22 Q Okay.

23 A He told that to Mr. Hall and Mr. Hall told  
24 that to me.

Q Is he going to be fully in charge of operating the bank?

A He will operate -- the directors will carry their directorship responsibilities --

Q Yes, sir.

A -- and Mr. Hight will manage or be the Chief Operating Officer under the guide of the directorship and he will be in charge of that subject to the approval of the directors.

Q He will handle the day-to-day operations of the bank?

A Yes, sir.

Q I was a little confused. Mr. Thomson, your counsel, indicated he was retiring.

MR. THOMSON: From the Bank of Virginia.

WITNESS GILLIAM: He was with the bank in Lexington before he came to the Bank of Front Royal. He has been in Front Royal ten years, say, give or take a few years.

He is very qualified and very well thought of.



BY MR. TROY: (Continuing)

Q What does he do with the Bank of Virginia?

A He is the Chairman of the Bank of Virginia in Front Royal.

Q Yes, sir.

A The Bank of Virginia-Warren.

Q Okay.

A Is turned into a branch. They are going to disband with the Bank of Virginia. He is presently -- before that dissolution and changeover, he is presently the Chairman of the Board of that bank company and on our Board of Directors and has been for years.

MR. THOMSON: I point out again, this is in our direct testimony. It was read here this morning, on Page 7.

MR. TROY: I don't know why I have no right to cross-examine direct testimony.

MR. THOMSON: It's just asking him the same question again, and he's giving the same answer. It's in the testimony. It's not any cross-examination.

1 shares at twelve thousand five hundred dollars.

2 Q Eighty-nine thousand and one shares times  
3 the subscription price would give you one thousand one hundred  
4 twelve -- one million one hundred twelve thousand five hundred  
5 and twelve dollars and fifty cents of anticipated capital.  
6

7  
8 MR. THOMSON: We will stipulate that  
9 his figures are correct subject to check.

10 WITNESS GILLIAM: All right. Whose  
11 figures?

12 MR. THOMSON: He is testifying. We will  
13 accept those figures subject to verification of the  
14 mathematics.

15 WITNESS GILLIAM: All right. We will  
16 accept them subject to verification of mathematics.

17  
18 BY MR. TROY: (Continuing)

19 Q Did you verify your mathematics when you  
20 swore to the testimony that you gave to this Commission?

21 A Yes, sir.

22 Q And did you multiply the subscription  
23 price of twelve-fifty times the number of outstanding shares?

24 A Twelve -- I put it on the machine, you know.

COMMISSIONER SHANNON: It comes out one million a hundred twelve thousand five hundred twelve dollars and fifty cents.

MR. TROY: Okay. Let's stipulate to that.

MR. THOMSON: Sure.

BY MR. TROY: (Continuing)

Q Your testimony is wrong.

MR. THOMSON: Subject to verification.

BY MR. TROY: (Continuing)

Q All right, Mr. Gilliam, let's go to Page 9 of your prefiled testimony.

MR. THOMSON: You have a copy of that.

Let me have mine back so I can follow that.

BY MR. TROY: (Continuing)

Q Let's go to Page 9 of your prefiled testimony. You indicated that Shenandoah Savings and Loan has three hundred and ten households represented in its subscriber list.

How did you reach that figure, please?

A We went down the list, a couple of us, like one of the other directors and myself, and we determined about three or four months ago and, then, we updated it.

And Mr. Williams gave one figure, and I know it's a little different than my figure, if you're getting into that again. And that's because his was one time and he lost some. And they added a lot, but they lost more than that. I forget which -- they sent in a supplemental when all their directors -- I forget, but most of them didn't change families.

And our supplemental was not half as expensive as their supplemental from the original application that we went through. So, that's how we came up with the --

Q I see. You cross-checked that?

A We cross-checked all of those against --

Q You indicate you have four hundred fourteen households represented in your shareholder list; is that correct?

A Yes, sir, that's true.

Q Have you ever gone back to those individuals since 1973 to see if they still are interested in being subscribers in your association?

1  
2 A I haven't gone directly to each household,  
3 no, but they've come to me. A couple of weeks ago, a fellow  
4 has -- it amazes me. He has been in there for ten years,  
5 what-have-you, and he said he had ten thousand dollars and he  
6 wished he knew we was this close, he would have put more  
7 money in it.

8 Q Hanging in there still with you?

9 A He's hanging in there. I tell you, it's  
10 amazing.

11 Q Then, he is representing all four hundred  
12 and fourteen households?

13 A He is one of those four hundred and  
14 fourteen. I told him, I said: Be glad to give you your  
15 money back. I don't know how we stand.

16 But he was going to put ten thousand --

17 Q Let's go to your Question 24 and answer,  
18 please.

19 You are indicating here that the estimated  
20 operating earnings for the first year, you project to be  
21 one hundred forty-nine thousand eight hundred forty-four  
22 dollars; is that correct?

23 A Estimated operating earnings for the  
24 first year is projected to be one hundred forty-nine thousand

1  
2 This is one question solicited in the  
3 application to determine income against expense.  
4 It does not take -- you have a separate place  
5 you require people to account for investment in  
6 building and fixtures, and that's done.

7 That figure doesn't relate directly  
8 to this, and it's a misleading statement to the  
9 witness, and he can't answer.

10 First place, if you don't license this  
11 organization all of this is not going to happen.  
12 It's all going back to the stockholders. That's  
13 exactly what's going to be.

14 And he has already testified he will not  
15 be the Chief Operating Officer. We will have an  
16 experienced loan officer from the bank who will be  
17 the one to make these recommendations of business  
18 policy to the Board.

19 He obviously does not have -- and we will  
20 stipulate he doesn't have -- the expertise to run a  
21 savings and loan himself, and he's not going to make  
22 those kind of decisions. He will make it with the  
23 operating officer who is an acknowledged expert  
24 in the field.

1  
2 And the Board will govern that with  
3 regulations and directives, as any Board of  
4 Directors would in sound business discretion.

5 This is obviously an internal operation  
6 problem.

7 MR. TROY: Mr. Thomson made a little  
8 speech less than a minute ago that these figures  
9 are very good figures. The Banking Commissioner  
10 has indicated they are very conservative, and you  
11 should see the liberal figures that Shenandoah has.

12 Now, he's saying these figures aren't  
13 really accurate and this man shouldn't be asked  
14 to --

15 MR. THOMSON: No, sir. They are accurate.  
16 We say they are terribly accurate.

17 But he is not the man to enforce them.  
18 An operating officer who is experienced in the  
19 area --

20  
21 BY MR. TROY: (Continuing)

22 Q How are you going to carry one hundred  
23 forty-nine thousand dollars --  
24

MR. THOMSON: If you know.

BY MR. TROY: (Continuing)

Q -- in projected earnings when you take all your capital and you don't build a building?

A (Witness did not answer)

Q You are an accountant, correct? You have an accounting degree?

A Yes, sir. I answered that before. But, yes, sir.

Q So, that is not a strange document to you, is it?

A No, sir.

Q Does that document reflect out of organizational expenses, out of expenses that you will incur in the first year of operation, the fact that you must build a building and, then, you will furnish it and that you've estimated that to be one hundred seventy-some thousand dollars?

A Could I answer your question? These figures on this paper, we hired the firm of Yount, Hyde & Company to develop cost of a building. With the advice of our attorneys, with the advice of our economic expert, with our

272



1  
2 economic expert and with our attorneys, those figures were  
3 derived by the accounting firm basically of Yount, Hyde and  
4 Company.

5 Q Let me ask you this, Mr. Gilliam --

6 A They were based on other savings and  
7 loans going into business. I did not personally derive those  
8 figures. I did go down the figures in a Board meeting with  
9 our group as to how much we were going to spend for those  
10 different things, the building and parking lot and we checked  
11 with Heritage Savings and Loan, what they got a building  
12 permit for, as to the cost of their building.

13 And, then, our accounting firm checked  
14 with other accounting firms in the State of Virginia as to  
15 the cost of the building.

16 Q So, you included the parking lot in this  
17 and all that, correct?

18 A Yes, sir, the whole -- in the projected  
19 cost of the building.

20 Q Now, you've taken -- let me ask it this  
21 way. Mr. Gilliam, if you take your average savings deposits,  
22 which you estimate to be five hundred fifty thousand dollars  
23 for the first year, all of your paid-in capital --

24 A Yes, sir.

Q           Isn't it correct that the only way you can earn one hundred forty-nine thousand eight hundred forty-four dollars, which you project as your first-year earnings, is by earning eight and three-quarters percent on that total amount of money?

A           If eight and three-quarters times that total amount of money equals to one hundred forty-nine thousand, that would have to be true.

Q           It does. All right.

Now, isn't it correct --

CHAIRMAN HARWOOD: Mr. Troy, it is past 12:30. We will be in recess until 2:00 o'clock.

NOTE: The Commission is recessed at 12:32 o'clock P.M. Thereafter, the Commission is again in session at 2:03 o'clock P.M. and the hearing continues as follows, viz:

CHAIRMAN HARWOOD: Mr. Troy, if you will continue, please.

MR. TROY: If the Commission please,

1 the course of questioning during -- just prior  
2 to the luncheon break was simply to point out  
3 that the estimated future earnings are in fact --  
4 and I think the Commission can take notice they are  
5 not accurate because of the fact they did not  
6 include the necessary capital either to build or  
7 buy mortgage expense to build the building, one  
8 hundred seventy thousand dollars that they anticipate,  
9 and consequently the figures are not accurate.  
10

11  
12 BY MR. TROY: (Continuing)

13 Q Mr. Gilliam, let me direct your attention,  
14 please, to your prefiled testimony and your Question and  
15 Answer No. 26 on Page 11.

16 You indicate that you currently are in  
17 fact soliciting pledges for deposits.

18 A Yes, sir.

19 Q Did you check with the Federal Home Loan  
20 Bank Board prior to making those solicitations?

21 A No, sir.

22 Q Do you know it is against their policy  
23 to solicit such pledges for deposits prior to issuing --  
24 prior to being issued a certificate of authority?

A No, sir.

Q Did you solicit those pledges as a written solicitation offer?

A No, sir.

Q Did you solicit subscriptions with any written solicitation offer?

A No, sir.

Q In fact, you responded to Interrogatories that you did not? Is that correct?

A Would you refer to which Interrogatory you are talking about?

Q Yes, sir. No. 13. Interrogatory No. 13, Mr. Gilliam, was to state whether there were any persons identified in response to Interrogatory No. 1 -- that is your subscribers -- were furnished with a written offering circular in connection with the solicitation of their subscriptions to the capital stock of Front Royal.

And the response that you gave was no.

A Yes, sir.

Q That's correct, is it not?

A Yes, sir, if that's the question and my response is no, correct.

Q Do you have any knowledge of what was said

1 to the various subscribers by the records other than yourself  
2 encouraging them to, in fact, solicit or to subscribe, rather,  
3 to stock in Front Royal?  
4

5 A No, sir.

6 Q Now, let's continue with your prefiled  
7 testimony, and your Question and Answer No. 30, Mr. Gilliam.

8 You indicate that in March, 1978 the  
9 Department of Highways and Transportation conducted a study  
10 of traffic patterns and that the study indicated a twenty-four  
11 hour traffic count for your site.

12 A Yes, sir.

13 Q Eleven thousand four hundred fifty vehicles,  
14 whereas a four thousand one hundred fifty count at the  
15 Shenandoah site was indicated.

16 A Yes, sir.

17 Q All right. Do you have the document  
18 upon which you base that statement?

19 A I think it's available. I had it in my  
20 briefcase. It will take me a while to look it up.

21  
22 MR. THOMSON: It was introduced at the  
23 last hearing, I think. I think it was. That is,  
24 the traffic count of the Highway Department.

The Commission has our copy of it. We only had one copy at that time.

CHAIRMAN HARWOOD: Let me check my bench notes.

MR. TROY: That would be LCP-2, Your Honor.

WITNESS GILLIAM: Do you want me to tell you where I got it?

BY MR. TROY: (Continuing)

Q Yes, sir.

A From the Town Manager of the Town of Front Royal, and he photographed it off on the Town machine, all those figures. That's where I got the information.

Q So you did not get it from the Virginia Department of Highways and Transportation?

A I think -- I'm not saying it's correct, but as soon as I see the paper -- I believe it was Virginia Department of Highways and Transportation survey that they mailed to each individual town. They make the surveys and, you know, they give them to the Town. They are updating State roads.

But as soon as you find it -- we've got it



1  
2 A You get at an intersection, per this  
3 diagram as submitted.

4 Q Let me stop you right there.

5  
6 MR. THOMSON: No. You let him answer  
7 the question. You asked the question. Now, let him  
8 answer it.

9 WITNESS GILLIAM: Now, it shows the people  
10 here. This is Sixth Street.

11 MR. THOMSON: Show it to the Commission  
12 so they can see it as you're doing it.

13 CHAIRMAN HARWOOD: Turn it around so  
14 everybody can -- all right, we can follow it.

15 WITNESS GILLIAM: One hundred fifty-six  
16 vehicles -- this is in one hour -- pulled up at  
17 our corner, stopped there, took a right and forty-  
18 eight went thataway out of the one hundred fifty-  
19 six. Sixty-one of them turned left and forty-seven  
20 went straight through. The ones that pulled up  
21 to that point in one hour, they went in two directions.  
22 They either turned right, go straight or took a left.

23 Then, over on this side of our location,  
24 the people that pulled up in this corner, three



1 hundred sixty-two stopped there so forty-nine  
2 took a right, two hundred seventy-three continued  
3 through.  
4

5 Now, from all directions this street  
6 received seven hundred twenty-seven from all three  
7 areas moving thataway.

8 And this one received, between the ones  
9 that stopped -- excuse me, between the ones that  
10 stopped going this way and the ones that come up  
11 to an intersection, you've got them going through  
12 the intersections and the ones turning from all  
13 three directions feeding into that intersection,  
14 you've got another figure. And those two figures  
15 in front of this on one side of the corner, three  
16 hundred fifty-eight. This is during the peak time,  
17 pulled up.

18 So, we're going this way. Pulled up  
19 to go through. The intersection received three  
20 hundred sixty-nine, making a total in front on the  
21 Sixth Street side of seven hundred twenty-seven.  
22 On the Commerce Avenue side, in relation to that,  
23 one hundred fifty-six people pulled up to go through  
24 and took a right and went on through. And the others

1 had received on the other side was one hundred  
2 seventy-three, making three hundred twenty-nine.  
3

4 Now, that's about a thousand vehicles  
5 in one hour during a peak hour at this particular  
6 intersection. But, now, you could say that there  
7 were seven hundred twenty people that came down  
8 to Seventh Street way, but when you add them  
9 both together it shows about a thousand during a  
10 twenty-four hour period. That would be twenty-four  
11 thousand vehicles but that isn't true, but that's  
12 the peak hour.

13 So, the State -- there's another piece  
14 missing to this. Oh, right here. They take every  
15 hour as to the people that come up to that inter-  
16 section, go through, turn right, take a left,  
17 as to how many on each and add it all up and that  
18 total figure comes up to, for a twenty-four hour  
19 period of time, eleven thousand some odd vehicles.

20 Now, in relation to their location,  
21 it is not an intersection. You just have the traffic  
22 flowing thataway and receiving this way, coming by that  
23 location. Ours, you can get it from about -- I don't  
24 know how many routes that would be. You get one,

1  
2 two, three, four, five -- there is six routes  
3 that come by one corner on that intersection.

4 COMMISSIONER SHANNON: Mr. Gilliam,  
5 does Commerce Road or Commerce Avenue, isn't that  
6 the bypass?

7 WITNESS GILLIAM: Commerce Avenue --

8 COMMISSIONER SHANNON: It bypasses the  
9 Royal Avenue right through town, does it not?  
10 You come down the bottom of Riverton Hill, you  
11 turn to the left, it goes around and isn't that the  
12 route that's followed by you as 340 and 522?

13 WITNESS GILLIAM: That's correct. It  
14 turns into -- it's the newest four-lane highway  
15 in the center of town, and that's Royal Avenue  
16 or the old street that went out towards Riverton.  
17 You take a left and you go on up to where --

18 COMMISSIONER SHANNON: It really parallels  
19 Royal Avenue?

20 WITNESS GILLIAM: It parallels it in a  
21 crooked fashion. It weaves --

22 COMMISSIONER SHANNON: I don't mean it  
23 actually parallels. I mean, in geometric terms,  
24 it runs parallel.

## CROSS-EXAMINATION

BY MR. SCHUTT:

Q When was your gentlemen's agreement with Mr. Hight to come with the S&L concluded?

A I talked to him as late as yesterday.

Q When did you first know that he was going to come with you-all?

A I don't have a definite day on that. He is working for the Bank of Virginia and he couldn't definitely say he was going to -- and I wouldn't ask him to definitely say: I'm going to work for you and I'm giving my notice to this operation that I'm leaving, which is fair. You can't devote your work to two masters.

So, we don't have a definite agreement. He can't work for the Bank of Virginia and us.

Q Well, your testimony says that James Hight has agreed to serve as Chief Executive Officer.

A January the 1st.

Q That's not what your testimony says.

COMMISSIONER SHANNON: Is Mr. Hight the CEO of Bank of Virginia-Warren?

WITNESS GILLIAM: Yes, sir.

COMMISSIONER SHANNON: He's the Chief --

WITNESS GILLIAM: He has given a tentative notice, unless something changes, that he is leaving the Bank of Virginia as of December 31st, this year.

BY MR. SCHUTT: (Continuing)

Q Uh-huh.

A He gave them notice last year and they asked him to stay on. And this year, he said he's definitely leaving this year and going on.

Q He's committed to come with the organization if you are granted a charter, is that right?

A Yes, sir.

Q When did you become convinced that he was going to, in fact, be the Chief Executive Officer?

A Several months ago. I don't know the day. I've been convinced almost before we put the last application in. I don't remember. This has been over some period of time. And he had some trouble making his mind up whether he was coming with us, and we had some trouble making our mind up whether we wanted him.

Q Well, he wasn't listed as the proposed Chief Executive Officer on your application, was he?

1  
2 A No, sir. His name wasn't listed. I believe  
3 we had submitted his resume before the last hearing, October  
4 the 24th. I believe his resume was in your hands before  
5 when you were here at the last meeting, October something.  
6

7 COMMISSIONER SHANNON: How old a man  
8 is Mr. Hight?

9 WITNESS GILLIAM: Mr. Hight is sixty  
10 years old. I told him he looked like he was about  
11 forty-three or four, and I really felt this. I told  
12 the Board.

13 COMMISSIONER SHANNON: He's retiring  
14 early from the Bank of Virginia-Warren? I suppose  
15 they can work up until they're sixty-five.

16 WITNESS GILLIAM: They want him to work,  
17 is the way I understand it, they would like for him  
18 to continue on. But he would rather -- but that's  
19 his discretion.  
20

21 BY MR. SCHUTT: (Continuing)

22 Q You said, what was his age? Excuse me.

23 A Sixty. I don't know when his birthday was,  
24 but he was sixty the last time I talked to him.

Q How long has he agreed to stay with your organization?

A We don't have a definite time span on that, but we are planning he would stay with us. We were thinking like five years. You know, at least five.

We wanted him -- it isn't something, if you're thinking that just to hire him for some other reason, it's for him to run the place.

Q I understand that.

A Until he discerns he doesn't want to work there any more. And that might be three years. But I hope it is a happy and full relationship if we do go into business.

Q But he hasn't said that it is his plan to work for you for five years and then retire at sixty-five? It's an open-ended thing, isn't that right?

A That's right. Mr. Hight is a gentleman, a scholar. He just wouldn't walk up and leave you.

Q I don't doubt that a bit. But, you say that his name and his resume was submitted to whom?

A He gave his resume and name to our attorney, Mr. Thomson by mail, and you-all have it in your file. I assume you -- is that right?

1  
2 Q Have there been any other elections for  
3 directors besides that election?

4 A No, there have not.

5 Q Dr. Williams, would you describe for the  
6 Commission how the directors of Shenandoah Savings and Loan  
7 were selected or elected?

8 A Yes. The directors of the organization  
9 were elected at a called meeting of all subscribers of the  
10 organization. They were informed by letter by Mr. Adamson  
11 and at this meeting a chairman called for election of officers.  
12 Letters were sent out to all subscribers at which they were  
13 advised if they were interested in becoming directors that  
14 they should notify Mr. Adamson and they would be placed on an  
15 appropriate ballot.

16 This was done. The meeting was called;  
17 the names were issued on a slip of paper of people who had  
18 indicated an interest, and nominations were offered from the  
19 floor.

20 The election took place from these names  
21 that were offered.

22 Q Would you tell the Commission the names of  
23 the directors that were elected at that meeting and tell a  
24 little bit about each one of them, perhaps introduce them to the



Commission.

A Yes, sir, be glad to.

Eric E. Adamson is the President of the Shenandoah Savings and Loan. He is an owner of the Eric E. Adamson Professional Corporation. He is an attorney, practicing attorney, in Front Royal. He received his prior education, University of Virginia, undergraduate and law school with a Master's Degree in Taxation from George Washington University.

He is a member of a number of professional associations and organizations. Virginia State Bar, American Trial Lawyers Association, American-Virginia Hospital Attorney Association, American Bar Association serving on the Committee on Legal Assistance, on the Session of Economics.

He is also Secretary and Treasurer of Front Royal County Bar Association. He is also a member of a number of other community organizations, taking part actively in community affairs.

He is the Town Attorney. He is a member of the -- a Director of a number of organizations, among them being the Northern Virginia Lung Association. He is a member of the Board of Trustees of Warren Memorial Hospital, and is a member of Calvary Episcopal Church.

Charles B. Russell, Vice-President, lives in

Rappahannock County. He has his own business, Russell Insurance Agency in Front Royal. He just recently -- I think within a year and a half moved to Rappahannock County which is just adjoining Warren County.

He received his public education in Fauquier, in Warren County, at the University of Delaware for his college and George Washington University, majoring in Accounting.

He is a member of a number of the community organizations, among them being, he has been Campaign Director of United Fund. He has been a member of the Board of Directors of Samuels Public Library, serving on it, on the Building Committee while they were building an extensive addition to the library.

He is Director of Fund Raising for the Front Royal Volunteer Fire Department for the building with excess of two hundred twenty thousand dollars being raised on that campaign.

He is a member of the Board of Trustees of the Warren Memorial Hospital, Vice-President, Chairman of Finance Personnel and Insurance Committees, while planning and starting and almost to completion of a four million dollar annex.

William F. Pumphrey, attended public school

1 in Montgomery County, Maryland, received his B.S. Degree in  
2 Business Administration from the University of Maryland,  
3 1955. He was employed by Kelly-Springfield Tire Company as a  
4 District Manager for the Maryland and Virginia district,  
5 from which he went into a supervisory position with Wisinger  
6 (phonetic) Chevrolet in Falls Church.  
7

8 He was in charge of over one hundred people  
9 as far as supervision was concerned and made top management  
10 decisions involving sizeable amounts of capital with that  
11 organization. He is now with Jack Evans Chevrolet-Cadillac  
12 Company in Front Royal and he is the General Sales Manager  
13 for that organization.

14 And since he has been with the organization  
15 it has grown tremendously in the last three or four years.  
16 I may be off on that time a little bit.

17 He is a member of some organizations,  
18 community-oriented. He is scoutmaster of a troop in Front  
19 Royal, a member of the Rotary Club and Finance Committee on the  
20 Front Royal Methodist Church.

21 Mr. Kermit Nichols is presently a member  
22 of the Town Council. He is a Mason, Shriner. He is Treasurer  
23 of the Lord Fairfax Planning District Commission, Chairman  
24 of the Front Royal Federal Credit Union and serving as Supervisory

Committee with that organization.

He is also serving on the Front Royal-Warren County Recreation Board. He is a former past Chairman of the United Giver's Fund, past Treasurer of the Front Royal Jaycees, other civic organizations, including the Lions Club, PTA and so forth.

Mr. Nichols is employed by Avtex Incorporated. He is supervisor in the Power House Section.

Was born and attended schools in Warren County, served two years in the Navy. He and his wife reside in Front Royal.

Ottmar Dengal has his Ph.D. in Physics, B.S., General Engineering, numerous courses in Modern Management and Data Processing Techniques.

He is affiliated with American Physical Society, American Association for the Advancement of Science. He is presently Director for a Fluid Dynamics Group, Naval Surface Weapons Center. That's hard to get out. This is in Silver Spring, Maryland.

To his credit, he now has thirty-two publications, ten U.S. patents.

He resides just out of the Town limits on the Town road with his wife, who is an M.D., practicing --

1 a practicing pediatrician.

2  
3 Bradley K. Haynes graduated from George  
4 Washington University. He has been active since 1966 in the  
5 Front Royal area in real estate. He is President of the  
6 B. K. Haynes Corporation and is President of Great Land  
7 Publishing Company.

8 He is a partner in the Haynes-Anderson  
9 Associates and maintains a cattle farm near Middletown,  
10 Virginia. I understand that his address is Middletown,  
11 Virginia, but the property is in Warren County.

12 He is a member of Big Brothers of Winchester  
13 and associated with the United Methodist Church.

14 James L. Fox, Jr., born in Warren County,  
15 graduated Warren County High School, attended the University of  
16 Virginia, worked for Avtex Corporation, has -- as a supervisor  
17 he managed from which he began working for Commonwealth  
18 Corporation, which is a building supply organization. He  
19 managed that for ten years and has bought that business  
20 approximately two years ago and is now running and operating  
21 that business himself.

22 He is active in the Rotary Club, Treasurer  
23 this year of the Ruritan Club. He is Director of the Chamber  
24 of Commerce, is married, has two daughters and lives in Warren

County.

Phillip E. Wines, graduated, Bachelor's Degree, University of Virginia. Has done surgery from Georgetown College, general surgery. He is the practicing dentist in Front Royal.

He belongs to several professional organizations, American Dental, Virginia Dental, Shenandoah Valley Dental Association. He is a member of the Chamber of Commerce, on the Administrative Board of First Baptist Church. He and his wife have four children and live in Front Royal.

Charles M. Huber, graduated University of Michigan, B.S. in Pharmacy, M.D. degree, Medical College of Virginia, 1968, post-graduate training and Board certification to Diplomatic Board of Internal Medicine.

He is practicing in Front Royal with a group. Served with the Navy. Member of a great number of medical and professional organizations.

Is President-elect of the Chamber of Commerce. Has publications to his credit. Served the past two years at Calvary Episcopal Church, member of the Rotary Club and several other organizations.

Edward M. Mathews attended public schools, Warren County; graduated from Virginia Tech with a B.S. Degree in

Business Administration, with accounting options. Served in the Army, employed by the Commonwealth of Virginia, Department of Law as a Veteran Claims Agent for twenty-one years.

February, 1967 he was appointed Warren County -- as Clerk of the Warren County Circuit Court, and his second term -- second eight-year term -- of that office he is in.

Past President of Virginia Court Clerks Association, presently serves on the Advisory Board of that organization.

His wife teaches at Warren County High School, Business Administration. Resides in Front Royal with his wife.

Has a long list of clubs, civic groups and large organizations that he belongs to.

James E. Williams, that's myself, I'm a practicing dentist in Front Royal. I group practice with one associate at this time, with a second associate coming in this year.

I have been in Front Royal for the past twenty years practicing dentistry. Belong to the American Dental, Virginia Dental, Shenandoah Dental and Northern Virginia Dental Study Club Organizations. Past President of

1 Front Royal Jaycees, Chamber of Commerce, Rotary Club,  
2 Cancer Society.

3 Served two terms as a Senior Warden,  
4 Calvary Episcopal Church.

5 Presently, I'm on the Building Committee  
6 of Samuel's Library, which we are finalizing blueprints  
7 for a new library in the neighborhood of a quarter of a  
8 million dollars.

9 I live with my four children in Front  
10 Royal.

11 That concludes -- I would like for the  
12 directors of the Shenandoah Savings and Loan to please stand  
13 and be recognized.

14 Q Thank you, Dr. Williams. Can you tell me  
15 whether any of the directors of Shenandoah Savings and Loan  
16 are related by blood?

17 A To my knowledge, no one is blood-related.

18 Q Do you know whether any of the directors,  
19 any one director, works as an employee for any one or more  
20 of the other directors?

21 A To my knowledge, no one does.

22 Q Dr. Williams, I'm sorry, have you been  
23 involved in the search for management to run an operation,  
24



1 Shenandoah Savings and Loan, should it be granted a certificate  
2 of authority?  
3

4 A Yes, I have. I spoke with a gentleman  
5 on Friday concerning coming with our group. And he advised  
6 me that when we became certified with authority that he would  
7 like to talk with us and get together with our management  
8 team.

9 He did advise me that he was not understood  
10 so much in maintaining complete control as he would be in  
11 working with us, not necessarily as Chief Operating Officer.

12 Q Have you talked to any other people  
13 besides this gentleman?

14 A No, I have not. Mr. Adamson has talked  
15 to some other people.

16 Q Who is this gentleman?

17 A His name is Mr. James A. Hight, and he is  
18 with the Bank of Virginia.

19 Q Is he the same Mr. Hight that has been  
20 discussed earlier in this case?

21 A That's correct.

22 MR. WEBB: I have no further questions.

23 MR. THOMSON: No questions.  
24

1  
2  
3                   ERIC E. ADAMSON, a witness called by and  
4 on behalf of the Applicant, Shenandoah Savings and Loan  
5 Association, having previously been sworn, further testified  
6 as follows:

7                   DIRECT EXAMINATION

8 BY MR. WEBB:

9                   Q           State your name for the record, please.

10                  A           Eric E. Adamson.

11                  Q           Have you testified previously in this  
12 case?

13                  A           Yes, I have.

14                  Q           Mr. Adamson, what is the current number  
15 of subscribers to Shenandoah Savings and Loan Association?

16                  A           The current number of subscribers is  
17 ninety-seven. Excuse me, I started to give you -- the current  
18 number of subscribers is five hundred forty-four. Different  
19 subscribers. Some of those subscriptions are joint, therefore,  
20 the number of people may be greater than that. But the number  
21 of subscriptions, individual subscriptions, is five hundred  
22 forty-four.

23                  Q           How many shares have the subscribers  
24 subscribed to purchase?

1  
2 A Total number of shares subscribed to date  
3 is ninety-seven thousand one hundred eighty-seven.

4 Q Mr. Adamson, have you been in the courtroom  
5 all day today and heard the testimony of Mr. Gilliam and  
6 others?

7 A Yes, I have.

8 Q Mr. Gilliam testified that his study,  
9 if you will recall, of your subscribers' list indicated that  
10 there were three hundred ten households represented among your  
11 subscribers.

12 Would you have information to substantiate  
13 or refute that statement?

14 A Well, of course, the subscription list  
15 is a matter of record. The Commission can go through the  
16 laborious process of counting the addresses and those that  
17 are similar and non-similar.

18 The task was performed, however, by  
19 myself and one other member of the Shenandoah Board of  
20 Directors, and the number of households indicated on that  
21 list, including the addendum to it that was previously filed,  
22 is four hundred forty. So, I don't know about the three hundred  
23 and ten in the testimony.

24 The record can be viewed by the Commission.

1  
2 My statement is it can be confirmed or disaffirmed through  
3 examination of that record.

4 Q Mr. Adamson, how many of the subscribers  
5 to Shenandoah stock reside in Warren County and Front Royal  
6 by percentage?

7 A The -- the percentage of subscribers,  
8 meaning the total number of people, are seventy-seven point  
9 two percent of the subscribers in terms of numbers are  
10 residents of Warren County. However, the number of shares  
11 subscribed by residents of Warren County, as a percentage  
12 is seventy-three percent.

13 Interesting statistic, however, is that  
14 I believe in Mr. Gilliam's testimony, prefiled testimony,  
15 there was one comment with respect to residents in Warren  
16 County and, then, the other comment was in the Front Royal  
17 area. We knew that a great number of our subscribers live  
18 within a very short mileage distance of Front Royal itself,  
19 because the County line, in one case, is only six miles from the  
20 Town of Front Royal.

21 Therefore, we knew that we had residents of  
22 adjoining counties. The distance of their residence to  
23 Front Royal was closer than that of any other population  
24 center. Therefore, they would be potentially using Front

Royal and ninety-two point eight percent of our subscribers are within a thirty-mile radius of the Town of Front Royal. And ninety-one point eight percent of the shares subscribed are within a thirty-mile radius of the Town of Front Royal.

Q Mr. Adamson, how many, as a percentage, of the total subscriptions to date of Shenandoah Savings and Loan are held by the current eleven-member Board of Directors?

A The -- often direct and indirect holdings --

Q Give both figures.

A -- has been referred to both by the Commission Staff and I believe in the prefiled testimony of Mr. Gilliam as a terminology, and it is my understanding that the direct subscription by Board members relates to the number of shares that they hold in their own name, and the direct and indirect subscription would refer to shares owned by they or members of their immediate family.

The figures, as a percentage of the stock, owned is approximately twenty-two percent are directly subscribed by the directors of Shenandoah Savings and Loan and twenty-seven percent, I believe -- and these are approximate figures but are quite close I believe -- they are percentage, tenths of percentage, are direct and indirect, attributable subscriptions to the Board of Directors.

1 submitted to the Commission in previous applications, and used  
2 examples -- maybe I shouldn't state their names because they  
3 may not have been very successful to the Commission. But,  
4 in any event, we followed some of the procedures used by  
5 other applicants having done this, and those are on file  
6 with the Commission, on file in this matter in Shenandoah's  
7 application.  
8

9 Subsequent to that, I believe Mr. Kyhros  
10 and other members of the Commission Staff were concerned that  
11 having made a written disclosure of information to subscribers  
12 that we should have included other information and should have  
13 been more thorough and thus more akin to a real registration  
14 statement that might be made pursuant to the Commission's  
15 filing in regulated cases.

16 Desiring, one, to satisfy the Commission  
17 that we had indeed disclosed all relevant data to our subscribers  
18 and wishing to not violate any rule or regulation of this  
19 Commission or of the SCC with respect to any fraud on our  
20 shareholders, we prepared a lengthy disclosure of all of the  
21 facts relative to our organization, the risks involved, and  
22 inherent in an investment in a savings and loan institution.

23 We proceeded to make a rescission offer  
24 through this document to all of our previous subscribers

1 offering them the right to the return of their money, interest  
2 on that money at the legal rate, or to having this information  
3 to reinstate their subscription or retain their subscription  
4 to the Shenandoah Savings and Loan.  
5

6 That, in brief, is an explanation of why  
7 it was done and the reasons that we made the rescission offering  
8 and circular.

9 Q Do you know how many individual subscribers  
10 responded to this solicitation by requesting a rescission of  
11 their subscription?

12 A The exact amount, I believe in my testimony  
13 at this hearing on October 24th I stated it was approximately  
14 thirty-nine hundred shares of a total of approximately eighty-  
15 four thousand shares which had been subscribed at that time.  
16 And those figures are approximately correct as to the  
17 rescissions made pursuant to the rescission offer.

18 Q Do you know how many individual subscribers  
19 that involved?

20 A The number of subscribers -- and, again,  
21 there were some joint subscribers, husband and wife, and I  
22 believe we included both individuals as the number of individuals,  
23 a total of approximately five hundred and thirty-five subscribers  
24 at that time, fifteen or sixteen withdrew their subscription.

1  
2 Q Did you give them back all the money  
3 they invested?

4 A Indeed we did, with interest.

5 Q Do you know how many subscribers, individual  
6 subscribers, you have lost since you sold your first subscription  
7 to date? That is, including the sixteen individuals you've  
8 just named here, who responded to the rescission offering?

9 A The -- I believe that number -- and, again,  
10 I'm doing this from memory, because there were some shareholders  
11 whose money was refunded prior to the time that the rescission  
12 offer was made, and there have been several -- the rescission  
13 offer was completed on October the 10th.

14 Since October the 10th, there have been  
15 several additional, so you have the fifteen that rescinded  
16 pursuant to the rescission offering. We had, I believe,  
17 three -- my answer to Interrogatory I believe state those,  
18 their names and why and the number of shares. And we have  
19 had three or four since that time.

20 So, a grand total is approximately nineteen  
21 or twenty or so individuals.

22 Q Mr. Adamson, you've testified previously  
23 to the fact that you have required a ten percent down payment  
24 with all subscriptions. Is that correct?



A That is correct. We have --

Q What do you do with the money you receive from the subscribers?

A The monies that had been received from the subscribers have been placed into an escrow account pursuant to written escrow agreement with the Farmers and Merchants National Bank, and by agreement with that bank as an escrow depository they have invested the funds in federal securities.

Q What do you -- how do you pay your operating expenses and organization --

A The operating expenses are paid from the subscription deposits of the directors of Shenandoah Savings and Loan, because the directors of Shenandoah Savings and Loan have agreed in the offering circular and by corporate, unanimous corporate resolution so passed, that they would bear the expense of organization in the event that the certificate of authority is denied and we do not go into business.

Q Mr. Adamson, has Shenandoah Savings and Loan Association, to its investors or any other employees, if there be any, solicited any subscriptions for deposit in the savings and loan should it be granted a certificate?

A No, we have not.

Q Would you tell the Commission why you have

not?

A Absolutely. The Federal Home Loan Bank Board instructed me by letter, as President of the Savings and Loan, that we are not to solicit any subscriptions for deposits nor to collect any monies for withdrawable accounts until they have granted conditional insurance, conditional approval of the insurance of accounts.

Therefore, we were instructed by them -- I was instructed by them by letter as to how we were to proceed. We were instructed under no circumstances would we subscribe to deposits.

Q Mr. Adamson, changing to a different topic, have you been involved in the recruitment in search for management to run Shenandoah Savings and Loan should it be granted a certificate?

A In the sense that we have had applications from -- and we have had resumes -- from individuals and have spoken to them concerning their background, abilities, yes.

We have not, and were advised by the Banking Commission Staff, that it was not even necessary, critical or determinate in any fashion that we have selected at this point in time a Chief Operating Officer or Chief Executive Officer.

1  
2 We have not done those things which, when  
3 the certificate is granted, we will have to do. And I would  
4 presume we would do that, and that would be to offer some  
5 advertisement in professional journals with respect to people  
6 currently employed elsewhere who may be interested in changing  
7 their location.

8 We've had a total of five applications  
9 from persons who heard of our organization who were interested  
10 in the immediate locality. We have not gone out of that  
11 locality to search in other areas of the State or elsewhere  
12 for people, which we certainly would do.

13 It is my understanding -- I don't mean  
14 to laugh, but we received, I know from the individuals,  
15 some of the same applications that have been received by the  
16 other institution. And those people have agreed that they  
17 would serve with either. So, I think that they are interested  
18 in being a Chief Executive Officer.

19 And I don't think -- no disrespect, but I  
20 don't think that they are really concerned with who.

21  
22 COMMISSIONER SHANNON: How many stockholders  
23 subscribed to both yours and Front Royal?

24 WITNESS ADAMSON: I don't know that figure.

COMMISSIONER SHANNON: Were there any?

WITNESS ADAMSON: Yes, there were some  
cross-overs.

BY MR. WEBB: (Continuing)

Q Mr. Adamson, I have put on a bulletin  
board, easel-type arrangement, over on the side of the courtroom  
a map of the Town of Front Royal. Are you familiar with this  
map?

A Yes, I am.

Q If you would --

MR. WEBB: Would the Commission mind  
if he walked over?

CHAIRMAN HARWOOD: Not at all.

MR. WEBB: I think counsel wanted me  
to go ahead and mark on this.

(Witness and counsel in front of the map)

BY MR. WEBB: (Continuing)

Q Would you point out the location, the  
proposed location of Shenandoah Savings and Loan to the  
Commission?

A Do you want me to go ahead and draw that?

Q Go ahead and draw it on there.

A These are approximates.

(Witness marking on the map)

Q Could you describe that location for the record?

A Well, the location -- you are making reference to other landmarks in the area? The location is at the southern end of the developed portion of Front Royal. And I would remind the Commission that this map, which is the only one we could obtain, is 1948 and, therefore, there has been some development.

But I think the map will accurately depict most of what we need to show here to the Commission.

This location is adjacent to the shopping center in Front Royal which is located in this area right here.

Q Would you draw that in?

A Yes. (Witness marking on the map)

The Royal Plaza Shopping Center faces this street here and is basically constructed in an L fashion, the A&P on this side and, then, back over here --

Q Just to make sure -- you are pointing

1 fingers and it's not going to show up on the record. Would  
2 you, please, as you're saying this street, identify the  
3 street so we can both see and so it will also be transcribed?  
4

5 A All right. The shopping center is located  
6 on what is termed South Street. South Street runs from  
7 Chapparel (phonetic) Avenue at this point to the intersection  
8 of 522 and 55, which is at this point. It is indeed, Route  
9 55 when you come from the Washington area. South Street is  
10 really 55, which extends through this area, the bypass that  
11 the Commission referred to and also referred to as Commerce  
12 Avenue commences at the same intersection. And there's  
13 some dispute as to where it commences, but generally referred  
14 to it commences at this point. It runs in this direction.

15 It's listed as 522 here on the map through  
16 the Town of Front Royal like so in here. And since 1949,  
17 this road has been developed to the point that it cuts through  
18 here and, then, goes out Front Royal to the north to Winchester  
19 like so.

20 The --

21 Q What is the name of the street on which  
22 your location is found and also the -- show where the shopping  
23 center faces.

24 A Well, there seems to be some dispute as to

1  
2 what it's called. This map, 1949, calls it Chester's Gap  
3 Road. I believe the prefiled testimony of Mr. Gilliam calls it  
4 Remont Road. I refer to it as Commerce Avenue, because  
5 Commerce Avenue is the same street.

6 There is some question, the four-lane  
7 effect of Commerce Avenue commences at this point and continues.  
8 It is also Route 522 south. There is no street sign there  
9 that I know of. So, I'm not sure what you call it, but it is  
10 the road -- our location in the option is described as four  
11 hundred feet south of the intersection of 55 and 522 on Route  
12 522. I don't think you can get any more accurate, give any  
13 more accurate description than that.

14 Q Could you point out and describe to the  
15 Commission the proposed location of Front Royal Savings and  
16 Loan on that map?

17 A Yes, I can. This is the corner, and for  
18 your information I will mark it No. 2 -- this is the corner  
19 of Sixth Street and Commerce Avenue. Front Royal -- certainly,  
20 there is no question that geographically it is located within  
21 the center of town. And no argument with that statement.

22 There is a stoplight located here at the  
23 intersection of Sixth Street and 522.

24 I might just point out for the Commission

1  
2 some of the other landmarks that have been referred to in  
3 previous testimony.

4 The shopping center, which is located here,  
5 has immediately across from it a McDonald's which, I believe,  
6 is three or four years old, a Burger King which is approximately  
7 a year and a half old. It also has in this corner a High's  
8 which was constructed in the past twelve to fourteen months,  
9 a Rustler's Steak House at this point immediately adjacent  
10 to our location. There is a new -- I say new, it's probably  
11 several years old, elementary school located at this point  
12 and at the end of South Street, at North Royal Avenue, there  
13 are approximately thirty units, townhouse units, being  
14 constructed here.

15 There is a new 7-Eleven being constructed  
16 at this point and I believe I mentioned to the Commission  
17 in the need hearing some of the subdivisions, the building  
18 that is occurring in Front Royal, showing the growth of the  
19 community.

20 Front Royal has a development here called  
21 Colonial Court Subdivision. That's shown on this map. The  
22 roads were constructed and completed as recently as a year, --  
23 sixteen months ago. And there are approximately sixty lots  
24 being developed and construction is in this area. That is one



1 of the few new developments being constructed within the  
2 town limits as they existed prior to annexation, January 1,  
3 1977.  
4

5 Now, we have two other new developments,  
6 one located at this point here, which is still within the  
7 corporate limits. It's a two hundred acre development here,  
8 which is under planning and, this I understand as soon as  
9 sewer and water is reached at that point they will commence  
10 construction.

11 Here is Mountain Dew Subdivision located  
12 here, which I think Mr. Gilliam owned part of it at one time.  
13 And there are --

14 Q Would you describe again -- you will have  
15 to be careful, your hand is not coming across .

16 A Here, meaning the developments that I have  
17 just described are located within a one-mile radius of  
18 Shenandoah Savings and Loan's new location on Route 55.  
19 The development occurring east towards Washington on the  
20 John Marshall Highway area.

21 There is one other subdivision, the name  
22 of which I do not know, which has been plotted and the bond  
23 for approved improvements of road and sewer were posted with the  
24 Town of Front Royal approximately two months ago, construction

1  
2 is underway. That is a forty-acre development I believe,  
3 third of an acre lots which would be approximately one hundred  
4 twenty residences in that area. As far as I know, there is  
5 no other major residential growth occurring within the Town of  
6 Front Royal.

7 I might also state, as Town Attorney, I  
8 sit at the minutes of the Planning Commission hearings and  
9 hear the minutes read, when they are plotted. There may be  
10 some of the small ones occurring.

11 Without question, the large development  
12 subdivision, large subdivision development occurring now  
13 and to occur within the near future is going to occur outward  
14 of 55 and in this area. This is one of the largest residential  
15 areas of the Town of Front Royal.

16 And, as you can see, the locations of  
17 both institutions are approximately an equal distance from  
18 this area.

19 In looking for a location, our Board  
20 considered many options available as to locate. There is  
21 plenty of land available to build and construct a savings  
22 and loan. And our primary concern was one of convenience  
23 to the people of Front Royal who, I might say, as the Commission  
24 well knows, were served by three banks with a number of branches

1 and an existing savings and loan.

2  
3 The Commission has the map; it was  
4 previously filed with those institutions indicated. And I  
5 might say that they are mainly located in this area here.  
6 There is one small branch of Farmers and Merchants Bank  
7 located in the shopping center. And with respect to the  
8 growth that's occurring in this area, the Town of Front  
9 Royal, there is no savings and loan in this area.

10 I might say also that I understand that  
11 the Commission may have an application coming forthwith on  
12 another branch in the shopping center. I spoke with the  
13 shopping center developers and they are in negotiations.

14 They were unwilling to disclose the  
15 party, but you may hear something about that in the near  
16 future.

17 And it's no question that the convenience  
18 of being located next to the only shopping center in the  
19 community that has both of the major food chains, Safeway and  
20 A&P -- Safeway moved here and constructed a new facility  
21 about six months ago -- that it will serve the convenience  
22 and necessity of the community.

23 Now, with respect to the exact location  
24 we discussed with the shopping center, location within the

1 shopping center, across the road from the shopping center  
2 on 55 and the same individuals own property on Commerce  
3 Avenue at this point. In the shopping center created some  
4 congestion problems with respect to the ease of traffic flows.  
5 A shopping center has a great deal of traffic and business.  
6 The same would apply across the street from the shopping  
7 center. There are people coming in and out of the exits  
8 to the shopping center, and you have traffic congestion  
9 at this point.  
10

11 The Highway Department has 1981 scheduled  
12 with three or four lanes of South Street at this point.  
13 As I understand, they will start construction in 1979 on the  
14 four lanes of the John Marshall Highway at these points,  
15 which raises the questions about if a divider was placed in  
16 the road whether or not we would have an offer, sufficient  
17 ingress and egress to persons coming off that road. The same  
18 problem exists with Commerce Avenue.

19 One of the reasons Commerce Avenue we thought  
20 created a problem with respect to traffic, and that is it has a  
21 median divider and, therefore, anyone wishing to, whichever  
22 side of the road you're on, access would have to do so from  
23 a crossover. And if they did so at a stoplight you would  
24 have the further congestion problems such as you have at

Sixth Street, as the only way to exit this location without being one car length from a stoplight, would be to be going west on Sixth Street.

And, therefore, that was some of the considerations with respect to traffic at this location. We could have been much, much closer to 55, which I might had, has a higher traffic count than this location on Sixth Street. I'm not sure traffic counts are the entirely determinant factor, but the Highway Department had advised the shopping center to place their exits sufficiently away from the intersection light so people could get in and out.

We attempted to do that by moving back from the intersection.

Our optionor owns about forty acres in this location. We could have located any number of different places with our traffic volumes, but could have created some congestion problems.

So, those were some of the number of reasons why we located in this area, why we felt this area was better than Commerce Avenue.

We spoke to the previous President of the Bank of Virginia, who recommended Commerce Avenue as a location, that they had considered it for a branch but they did have some

1 problems. And this was the location we finally selected as a  
2 result of a number of considerations, traffic being one of them,  
3 growth another.  
4

5 Q There was also previous testimony from the  
6 economist and also lay witnesses in the last hearing as to the  
7 growth currently being experienced by Front Royal.

8 Where is the growth occurring in the Town  
9 geographically? You probably already answered the question,  
10 but I want to --

11 A Of course, as you know, there are several  
12 kinds of growth. There is industrial, commercial and residential  
13 growth.

14 Basically, the large residential growth  
15 that is occurring is occurring in these areas east of Front  
16 Royal. The major subdivisions that I just mentioned. There is  
17 some construction going all over in Front Royal. But there are  
18 no new subdivisions that I'm aware of that have been planned  
19 or approved other than the ones that I mentioned that are  
20 large and that attribute to residential growth in the Town  
21 itself.

22 Now, the County, it may be growth everywhere.  
23 I might say there is another one I failed to mention of about  
24 sixty lots further out this road at the edge of the corporate

limits, part of which is in the County and part of which is in town.

Q This road being?

A This road being 55 east of Front Royal and Green Hill Forest is a subdivision about five years old, platted five years ago. Part of it was not developed until this summer and fall, in which a large number of lots were sold. And I believe five new houses are under construction.

The industrial growth is anybody's bet. I think it is occurring in different places. There is a new industrial park located in Riverton. This is the old industrial area of Front Royal which houses, as you can see, General Chemical and Old Virginia. They are in this area. There is no growth that I know of that is occurring, industrial, in this area. There is some here.

And, then, of course, the Dupont plant is about two miles out of the Town of Front Royal. It is quite some distance north of Front Royal towards Winchester across 66 bypass. And I really don't think traffic patterns -- there certainly will be some potential growth out there in the future.

Commercial growth, as I see it, is occurring here near the shopping center. You have the shopping center

1 expansion. I know of no construction other than the post  
2 office, which is U. S. Government -- and they will build  
3 anywhere -- that is occurring in this area with the exception  
4 of one office being constructed, I think, in this location.  
5 The Safeway left this location for the shopping center.  
6

7 This property that is immediately adjacent  
8 to the commercial property is for sale.

9 Q Here being where?

10 A Being at the corner of Sixth and Commerce  
11 but adjacent to the proposed site location.

12 I think most of the commercial buildings  
13 in this area are ten to fifteen years old, and I don't know  
14 of any new construction in that area.

15 Q Mr. Adamson, you spoke a moment ago about  
16 a traffic count at Sixth and Commerce and at 55 and 522.

17 Have you undertaken to obtain information  
18 concerning the flow of traffic at those intersections?

19 A Yes, I have.

20 Q Let me hand you some documents and ask  
21 if you can identify them?

22 CHAIRMAN HARWOOD: This would probably be  
23 an appropriate place for us to take about a five-  
24



minute recess.

NOTE: The Commission is recessed at 3:21 o'clock P.M. Thereafter, the Commission is again in session at 3:29 o'clock P.M. and the hearing continues as follows, viz:

CHAIRMAN HARWOOD: All right, Mr. Webb.

MR. WEBB: Yes, sir.

BY MR. WEBB: (Continuing)

Q Prior to the recess, Mr. Adamson, I handed you I believe three documents. How many documents did I hand you?

A Yes, I have four pages. There are three separate documents.

Q Would you identify --

MR. WEBB: Excuse me. I want to do one other thing. I would like to introduce this map into evidence.

CHAIRMAN HARWOOD: All right. The map will be Exhibit 20.

1  
2 BY MR. WEBB: (Continuing)

3 Q Mr. Adamson, would you please identify  
4 the document I handed you prior to the recess?

5 A Yes. One is the twenty-four hour traffic  
6 flow-through count done by the Department of Highways.  
7 This particular count was done in March of this year, March  
8 of 1978. I believe that it is identical to the document,  
9 in essence, that was prefiled with the testimony of Mr. Pettit  
10 and is similar to that document.

11  
12 CHAIRMAN HARWOOD: Is it identical?

13 WITNESS ADAMSON: I have not compared  
14 the document. I just received this as the most  
15 current updated one from the Department of Highways.

16 CHAIRMAN HARWOOD: All right.

17 On the theory they may not be identical,  
18 we will mark this as Exhibit 21.

19 Mr. Bailiff, while you were out, we had  
20 Exhibit 19.

21 THE BAILIFF: Yes, sir, I got that.

22 MR. THOMSON: Your Honor, you are going  
23 to mark all four of these as one document? I think  
24 the other one is identified by just one number.

CHAIRMAN HARWOOD: If you would just identify the other two in addition to the twenty-four hour flow-through traffic count, the other two, it would be four pages. I understand the traffic count is two pages and the other two --

WITNESS ADAMSON: Identify these?

CHAIRMAN HARWOOD: Yes, sir.

WITNESS ADAMSON: One is the 1997 projected daily volume at the corner of Front Royal -- Front Royal's proposed site, and the other is the 1995 projected turning count at the corner of Shenandoah's location, 55 and 522.

CHAIRMAN HARWOOD: Those four pages, three different documents, will be received collectively as Exhibit 21.

WITNESS ADAMSON: I'm going to need to refer to those in a moment. I can, in part, from memory.

I will start with the flow-through chart. That is the one that is similar to Mr. Pettit's chart; that is the traffic count.

That is obtained by just counting the traffic that goes by in both directions at a

certain point or between two points.

The traffic count at the location from the eastern corporate limits of Front Royal to the intersection of 55 and 522 is shown as eight thousand. This is the March '78 count.

An identical count was shown on South Street, that would be immediately in front of the shopping center, as a traffic count of eight thousand.

The -- I'm going to need to refer to these documents. The location at -- those are shown on this flow-through count. There is no flow-through count provided for the intersection of 55 and 522 going south on 522 immediately in front of the Shenandoah proposed location on this March '78 chart. Therefore, there is no number to compare on flow-through.

Looking at the flow-through on Commerce Avenue at Sixth Street, at the location of Front Royal Savings and Loan, the two figures that were bantered about earlier during Mr. Gilliam's testimony, from -- and this indicates from Ninth Street to Sixth Street -- now, that's coming south on Commerce Avenue from Ninth to the intersection of Sixth, on Commerce coming up to the location where

1 Front Royal has proposed its location, they show  
2 nine thousand seven hundred and ten as the traffic  
3 count of flow-through. That's -- I apologize when  
4 I say from Ninth to Sixth. It's not a directional  
5 count. That's traffic on both ways between those  
6 two points. I apologize.  
7

8 Then, a count was done of eleven thousand  
9 four hundred fifty on Commerce between Sixth Street  
10 and Happy Creek Road which is, again, going further  
11 south towards the location of Shenandoah on  
12 Commerce approximately six or eight blocks between  
13 those two points. .

14 The traffic count was eleven thousand  
15 four hundred fifty. I believe that was the figure  
16 contention that had been used earlier as the one  
17 that was prefiled. That was the figure of the  
18 traffic count in front of the institution.

19 I say there is no real way to compare  
20 the flow-through count in front of Shenandoah  
21 because it was not done in March of '78. But  
22 two other studies were done by the Department of  
23 Highways and these two relate to forecasting of the  
24 turning traffic counts at both locations.

1  
2 Interestingly enough, they did do both  
3 intersections. This is the 1997 projected traffic  
4 counts and they show all of the different turnings.  
5 Mr. Gilliam had something similar to this, but it  
6 was not this particular chart because I don't believe  
7 it was a forecast.

8 I have made a little X on this corner  
9 and this is the Sixth Street and Commerce Avenue  
10 corner here. This is the corner of the location  
11 of the proposed --

12 CHAIRMAN HARWOOD: That's the northwest  
13 corner?

14 WITNESS ADAMSON: That's correct. The --  
15 the traffic shown on Sixth Street going both  
16 directions is fifty-six hundred cars. This is  
17 projected for twenty years from now. The traffic  
18 going on the side of Commerce Avenue, that is on  
19 the side of the proposed location, remembering that  
20 there is a median strip in between those two sides,  
21 projected from twenty years from now is eighty-five  
22 hundred and ninety cars.

23 Therefore, the traffic both ways on Sixth  
24 that would be coming and turning from Commerce and

1 going this direction on Sixth Street is fifty-six  
2 hundred cars, and the total traffic on Commerce  
3 on this side is eighty-five hundred, which is this  
4 figure here. The cars on this side not being able  
5 to access because of the median strip, a total of  
6 approximately fourteen thousand, I believe, the two  
7 in traffic.  
8

9 Turning to the 1995 projected traffic  
10 count, turning ratios at the corner of 55 and 522,  
11 again I show the location here in the southeastern  
12 quadrant of that intersection, four hundred feet  
13 from the intersection, as I pointed out the reason  
14 for that being because of the congestion by virtue  
15 of the traffic light. Very difficult to get out  
16 if you are at the corner, or we felt that would be  
17 true and the Highway Department so advised the  
18 shopping center.

19 The total traffic count, remembering that  
20 this street both ways is not impinged with a divider  
21 eliminating turning traffic from both directions,  
22 the traffic on this road is projected at eighty-six  
23 hundred as compared to the fifty-six hundred with  
24 respect to the Sixth Street location. And the

1 traffic on this corner, the total traffic, and  
2 remembering that there is no median divider here  
3 as well, is thirteen hundred and forty.  
4

5 Now, though the savings and loan is  
6 located a distance of four hundred feet from here,  
7 I point out to the Commission that there are  
8 entrances right now which are paved so that the  
9 potentiality of access even from this side, I  
10 understand from the developer we have an option  
11 that there will be a paved parking area in here  
12 so that there will be access between the business  
13 establishments.  
14

15 In any event, this road on the east of  
16 55 and South Street are both -- the engineering  
17 has been done for improvement by the Highway  
18 Department for four-laning the road because of  
19 increased traffic.  
20

21 Our decision was that traffic was  
22 certainly a consideration but that there were some  
23 problems with traffic as well. We did not want to  
24 be on the highest traffic count street in the  
Town of Front Royal because of congestion problems  
for the public's access.



That's about all I can -- I think the documents speak for themselves as well.

BY MR. WEBB: (Continuing)

Q The last area I would like to touch upon, did there come a time when the Board of Shenandoah Savings and Loan considered approaching the Board of Front Royal Savings and Loan about merging the two institutions?

MR. THOMSON: Objection, Your Honor.

These were settlement proposals that went back and forth since the last hearing and nothing has materialized out of them, and I don't think it's proper to be back before this hearing..

CHAIRMAN HARWOOD: Mr. Webb.

MR. WEBB: Your Honor, unless I misunderstand the rule under which counsel is objecting to the introduction of this testimony, I believe that an offer to settle a claim is not admissible as a matter of policy. It comes under the relevancy rule.

This testimony is not being offered to settle a claim. This testimony is being offered

1  
2 to show the respected business judgments that have  
3 been exercised by the two competing savings and  
4 loans with respect to a matter gravely involving  
5 their institutions. The parties have spent  
6 a lot of time at this and we believe that actions  
7 taken by the Boards of each institution are very  
8 relevant to their respective abilities to run a  
9 savings and loan association in Front Royal.

10 I don't believe they are the same sorts of  
11 negotiations that are -- about which they are  
12 conducted to settle a lawsuit.

13 In fact, I don't believe this Commission  
14 is obligated to award a certificate of authority  
15 to either of these applicants. And I don't think  
16 they could have settled the lawsuit necessarily  
17 by agreeing to merge.

18 And I do think the testimony is relevant.

19 CHAIRMAN HARWOOD: Mr. Webb, from what  
20 I understand, you are saying there were negotiations  
21 of merger between the two applicants here that did  
22 not meet with fruition, for whatever reason they  
23 didn't come to fruition, and I don't believe it  
24 could be relevant or helpful to the Commission to

1  
2 hear why.

3 I'm sure they were both in good faith  
4 and they failed. And I think we ought to leave it  
5 at that.

6 I can't see going any further with that.  
7 We are unanimous in that feeling.

8 MR. WEBB: Well, Your Honor, for example,  
9 you have assumed -- and I would have no reason,  
10 if I were in your position, to do otherwise --  
11 that the negotiations were made in good faith.  
12 It just so happens that the last proposal received  
13 by my client from Front Royal Savings and Loan  
14 included a provision that no subscriber of Shenandoah  
15 Savings and Loan in a proposed merger with Front  
16 Royal could subscribe to more than five hundred  
17 shares of stock, when many of these people have  
18 subscribed for up to two thousand shares of stock.

19 Now, I don't believe that is a good faith  
20 attempt to merge. And I think it's relevant to the  
21 bona fides of their attempts in this regard.

22 MR. THOMSON: Your Honor, I am not even  
23 aware of that. If it was negotiated, it has been  
24 without knowledge to me. This is exactly what I'm

1 talking about.

2  
3 Four people sat down from each group  
4 and they discussed the thing, and they were not  
5 able to come to a conclusion. I'm sure each one  
6 of those four, if you put them on the stand, would  
7 come up with a different series of reasons why.

8 And I don't think it's material here.  
9 The fact is we did not come to an agreement.

10 CHAIRMAN HARWOOD: We've got enough  
11 to say grace over here now without getting into  
12 some extraneous material that went on.

13 I'm going to rule it inadmissible.

14 MR. TROY: Your Honor, you realize these  
15 were negotiations that took place, not only since  
16 this Commission's last hearing on October 24th,  
17 but in fact have been going on since April of this  
18 year because of the desires and relevancy of these  
19 individuals in Shenandoah to serve the public  
20 versus, I think, the evidence would demonstrate  
21 the desire of the Gilliam bank, if you will, to  
22 in fact maintain itself as the Gilliam bank.

23 MR. THOMSON: There is nothing wrong  
24 with that. We are perfectly entitled to do it.

MR. TROY: There certainly is something wrong with it, Your Honor.

MR. THOMSON: It's our application. We can have a decision made on it one way or the other.

CHAIRMAN HARWOOD: I think you-all have demonstrated exactly why it's inadmissible. This could go on forever.

I'm going to rule it inadmissible. And we'll note your exception.

Let's move on.

MR. TROY: Your Honor, I don't know the exact -- do we have to take exceptions of any sort --

CHAIRMAN HARWOOD: I don't know if it's necessary.

COMMISSIONER SHANNON: It's a safe thing to do.

CHAIRMAN HARWOOD: If you make an objection, it's known to us that --

MR. TROY: Yes, sir. I think this one is very clear on the record of what we desire.

CHAIRMAN HARWOOD: No problem.

MR. WEBB: We have no further questions

## CROSS-EXAMINATION

BY MR. THOMSON:

Q Mr. Adamson, I show you a copy of a letter and ask you if you can identify that letter, please, sir?

MR. TROY: Could counsel see a copy of the letter?

MR. THOMSON: I just have one that you-all sent me.

MR. TROY: I don't know what you just handed my client. I would like to see it, Mr. Thomson.

(The letter is passed to counsel after the witness reads it.)

BY MR. THOMSON: (Continuing)

Q Can you identify this letter?

A Yes.

Q Did you send that letter to Mr. Kyriakides?

A I believe I did.

Q Did you send it to Nick?

A Yes.

Q And you sent copies to Mr. Feltner,

Mr. McCormick, Dr. Joyce and myself?

A That's what it shows.

MR. THOMSON: We would like to offer  
this as the next exhibit.

THE BAILIFF: 22, sir.

CHAIRMAN HARWOOD: That will be Exhibit 22.

BY MR. THOMSON: (Continuing)

Q I next show you what purports to be a  
copy of that rescission offer under date of October the 10th,  
and ask you if you can identify that?

A Yes. That is the rescission offering  
circular.

Q I would like to refer you to Page 24  
and ask you to read the paragraph beginning at the top of the  
page.

A "The Association's officers and directors  
presently do not anticipate subscribing to any additional  
shares pursuant to this offering, unless the capital needs  
of the Association should dictate otherwise. If all of the  
common stock offered hereby is sold and assuming that the  
Association's capital requirements do not necessitate further

1 subscriptions from its officers and directors to complete the  
2 offering contemplated hereby, members of the investing public  
3 will hold not less than eighty-seven point three percent of the  
4 outstanding stock and present officers and directors, together  
5 with members of their immediate families, as a group will own  
6 twelve point seven percent of such stock."  
7

8 Q And despite that provision that's in your  
9 rescission offer, on October the 23rd, you-all had purchased  
10 an additional thousand shares each for your directors, had you  
11 not?

12 A At the time that this was prepared we had  
13 not.

14 Q All right, sir. But before October the  
15 23rd, you did, as exhibited by the letter you just acknowledged,  
16 didn't you?

17 A That is correct.

18 Q Okay. Let me ask you one other question.  
19 They show a couple of double lines running along this route  
20 here. (Counsel pointing to Exhibit 20)

21 Is that a creek?

22 A Yes.

23 Q That's a creek which physically separates  
24 the shopping center from Route 522?



A Indeed it does.

Q So the access from the shopping center would be by South Road out to 522 and then down to your location?

A It would, although there have been negotiations as recent as, oh, two or three months ago, between the Front Royal Town Council and the School Board of Warren County to acquire the necessary land back of the shopping center for a rear access.

Q But that creek does have water in it, does it not?

A It does.

MR. THOMSON: Thank you, sir. That's all the questions I have.

MR. SCHUTT: No questions.

CHAIRMAN HARWOOD: Anything, Mr. Largent?

MR. LARGENT: No questions.

CHAIRMAN HARWOOD: Any redirect?

MR. WEBB: One moment, please.

We have no questions. That's all.

CHAIRMAN HARWOOD: Thank you, Mr. Adamson.

You are excused.

\* \* \* \* \*

WITNESS STOOD ASIDE

Q Did you hear the testimony of Mr. Gilliam that the proposed location of Shenandoah Savings and Loan was in a non-growth area of Front Royal?

A I did.

Q Do you agree with that?

A I hate to disagree.

Q Well, would you please tell the Commission why you would disagree?

A Well, I think that Attorney Adamson has done a very thorough job of locating everything on our town map. I was glad he did, because I'm not familiar with the 1948 map.

However, also in the shopping center I think he did overlook the K-Mart Store which is the only all-around store that Front Royal at this time does have. However, he covered all the other developments and everything that's on that corner.

I recently invested close to one hundred thousand dollars on that corner. More recently I spent ten thousand dollars for Century 21 franchise. I have done this feeling that this is where the growth is primarily because this is the first entrance from 66.

There are only a couple of small pieces of

construction in the lower area that he reiterated in his testimony. He pretty well covered it.

Q Are there any areas in the Front Royal area other than the areas around the proposed location for Shenandoah Savings and Loan which in a commercial or residential way are growing at the rate they are in that area?

A There are none. It would be from the intersection of 522 and 55 would be east and west.

MR. WEBB: That's all the questions I have.

MR. THOMSON: No questions.

MR. LARGENT: No questions.

MR. SCHUTT: No questions.

CHAIRMAN HARWOOD: Thank you, Ms. Lang.

\* \* \* \* \*

WITNESS STOOD ASIDE

JAMES L. FOX, a witness called by and on behalf of the Applicant, Shenandoah Savings and Loan Association, having first been duly sworn by the Bailiff, testified as follows:

DIRECT EXAMINATION

BY MR. WEBB:

Q Mr. Fox, would you state your name and address for the record?

A James L. Fox, 424 Manassas Street, Front Royal.

Q What is your association with the applicant, Shenandoah Savings and Loan?

A I was elected a director at the first meeting approximately in December.

Q What is your association with the applicant, Front Royal Savings and Loan?

A I purchased one hundred shares of stock in that approximately eight years ago.

Q I don't want to lead you. Did you purchase shares of stock or did you subscribe to purchase?

MR. THOMSON: We give you credit for having

planned it, so we don't really care whether you lead him or not.

WITNESS FOX: I subscribed at this time. I said approximately eight years ago.

BY MR. WEBB: (Continuing)

Q You subscribed?

A Yes, sir.

Q Were you here -- have you been here throughout the progress of this trial today?

A Yes, I have.

Q Did you hear the testimony of Mr. Gilliam that anyone who has ever wanted their money back in Front Royal Savings and Loan and wanted to get out of their subscriptions has gotten their money back?

A Yes, I heard the statement.

Q Have you ever asked Mr. Gilliam for your money back?

A Yes, on two occasions, approximately 1975.

Q Both in 1975?

A I said approximately. I don't remember the exact dates. But they were within a few months of each other.

## CROSS-EXAMINATION

BY MR. THOMSON:

Q Do you figure you are legally entitled to get it back?

A I would say so.

Q Why didn't you sue him for it?

A I told him at the time I thought the organization was becoming dormant, I would like to have my money back. If he didn't want to give it back to me, he could donate it to the Elks Club.

Q So you didn't care whether you got the money back at all?

A It was my money. I would like to have it to put to some source.

Q I see. Did you write Mr. Gilliam a letter?

A No, sir. I was not instructed that I had to write a letter.

Q You didn't think it would be worthwhile to have written evidence as to whether or not this action had taken place?

A At this time, it was not stated that I had to write a letter to receive my money back.

Q And you want your money back today?

A I will take it.

Q All right, sir. We will promise you  
you will have a check when you get home.

How about that?

A That's very good.

MR. THOMSON: Good enough, sir. That's  
all we have of this witness.

CHAIRMAN HARWOOD: Mr. Schutt.

MR. SCHUTT: No questions.

CHAIRMAN HARWOOD: Mr. Largent. Mr. Largent,  
do you have any redirect?

MR. LARGENT: No, sir.

CHAIRMAN HARWOOD: Thank you, sir. You  
are excused.

\* \* \* \* \*

WITNESS STOOD ASIDE

1  
2  
3                   DOUGLAS MILLER, a witness called by and  
4 on behalf of the Applicant, Shenandoah Savings and Loan,  
5 having first been duly sworn by the Bailiff, testified as  
6 follows:

7                   DIRECT EXAMINATION

8 BY MR. WEBB:

9                   Q           State your name and address for the  
10 record, Mr. Miller.

11                  A           Douglas B. Miller, 211 Grand Avenue,  
12 Front Royal.

13                  Q           Were you ever solicited by anyone  
14 representing Front Royal Savings and Loan to buy subscription  
15 for stock in that organization?

16                  A           Yes, I was.

17                  Q           By whom were you solicited?

18                  A           Mr. Gilliam.

19                  Q           Which Mr. Gilliam?

20                  A           Ronald Gilliam.

21                  Q           Mr. Ronald Gilliam? Were you present  
22 in the courtroom today when Mr. Gilliam testified he had  
23 never offered to lend anyone any money to purchase subscriptions  
24 in Front Royal Savings and Loan?



A I don't recall that part. I was absent  
a couple of hours.

Q All right. Did Mr. Gilliam offer to lend  
you money to buy subscriptions in Front Royal Savings and  
Loan?

A Yes, he did.

MR. WEBB: No further questions.

CROSS-EXAMINATION

BY MR. THOMSON:

Q Did you take him up on his offer?

A No, I didn't.

MR. THOMSON: No questions.

CHAIRMAN HARWOOD: Mr. Largent?

MR. LARGENT: No questions.

MR. SCHUTT: No questions.

CHAIRMAN HARWOOD: Thank you. You are  
excused.

\* \* \* \* \*

WITNESS STOOD ASIDE