

Exhibit B



March 5, 2014

To the Stakeholders of CertusHoldings, Inc.:

Change We Can Believe In

Since sending my *Letter to CertusBank Stakeholders dated January 6, 2014*, I have communicated with many shareholders, all of whom are uniformly in agreement that the CertusHoldings, Inc. Board of Directors must be replaced as soon as possible.

Without going into the gory details at this moment, it has become clear that the Board of Directors is not listening to shareholders and is complicit in the massive value destruction overseen by this management team. Over the past two years, more than \$100 million of equity capital has been erased in the most baseless and irresponsible way – by spending exorbitantly on personal excess masked as corporate expense. This can go on no longer.

The Amended and Restated Bylaws of Blue Ridge Holdings, Inc. (the predecessor to CertusHoldings, Inc.), effective May 25, 2010 Article II Section 2.2 (B) Special Election Meeting states:

(1) General. If a shelf registration statement relating to the common stock of the Corporation has not been declared effective by the Securities and Exchange Commission on a date that is 180 days (the “Trigger Date”) after the filing of such registration statement as contemplated by the Registration Rights Agreement dated as of May 27, 2010, by and between the Corporation and the investors in the Corporation pursuant to the Stock Purchase Agreement, a special meeting of stockholders (the Special Election Meeting”) shall be called provided that holders of seventy-five percent of the outstanding shares of Class A voting common stock may at any time waive the requirement to hold a Special Election Meeting.

(2) Purposes of Meeting. The Special Election Meeting shall be called solely for the purposes of: (a) considering and voting upon proposals whether to retain or remove each then-serving director of the Corporation; and (b) electing such number of directors as there are then



vacancies on the Board of Directors created by removal, if any, of any directors pursuant to this Section 2.2(B).

(3) Nominations. Nominations of individuals for election to the Board of Directors at the Special Election Meeting may only be made (a) by or at the direction of the Board of Directors or (b) upon receipt by the Corporation of written notice of holders of shares of the Corporation's Class A Voting Common Stock entitled to be cast, or direct the casting of, not less than 20% of all the votes of Class A Voting Common Stock (the "Holders").

(4) Procedure for Stockholder Nominations. For nominations of individuals for election to the Board of Directors to be properly brought before the Special Election Meeting pursuant to Section 2.2(B) hereof, the Holders must have given notice in writing to the Secretary of the Corporation not later than 5:00 p.m., Eastern Time, on the 10th calendar day after the Trigger Date.

(5) Notice. Not less than 15 nor more than 25 days before the Special Election Meeting, the secretary of the Corporation shall give to each stockholder entitled to vote...blah blah blah. The notion of Jonathan Charleston facilitating a vote to remove the Board of Directors is ludicrous, and fortunately not required at this time. CertusHoldings is currently in violation of its SEC registration requirement.

On November 26, 2013, Jonathan Charleston (secretary) sent a letter to stockholders seeking consent to extend the time to file a Shelf Registration Statement on Form S-1 by six months to sixty (60) days after March 31, 2014. Consent was not granted and as a result the Company has been in violation of its Registration Rights Agreement since November 27, 2013 – notice how investors received the extension letter one day before the Company was in breach.

Another serious matter related to the Company's breach of its SEC registration requirement is the fact that this profoundly important event has not been disclosed to shareholders, and was not even mentioned in management's January 28, 2014 Letter to Stockholders. Why not? It doesn't take an analyst to find a pattern of material omissions¹ from the limited communication we investors have received. Given that the Company is currently in violation of its registration requirement, shareholders must immediately come together for a Special Election Meeting. The

¹ Discussed later in this letter; includes the fact that the Bank is below its 10% TCE requirement at December 31, 2013. How is this fact not material enough to be included in management's January 28, 2014 letter to stockholders?



Trigger Date was the day the Company breached, and the fact that this information has not been disclosed to shareholders is a basis for fraud – either gross negligence (best case) or deliberate fraud (worst case).

Here's the hitch: On May 22, 2012, management sent a letter to stockholders requesting an amendment to the By Laws (requiring 75% super-majority consent of Class A Voting Shareholders). The letter said:

The intent of the proposed changes is two-fold:

- (1) Timing of the filing of the S-1 Registration Statement. Given the Company's current asset size, limited history and the associated financial and regulatory burden that would be incurred by the Company as a result of becoming required to file periodic reports with the SEC at this time, many stockholders have recommended that the Company delay the filing requirements in the Registration Rights Agreement and the Company's Amended and Restated Bylaws to a later date. In addition, we have received approval from the Office of the Comptroller of the Currency to bid on additional banks and will shortly submit bids on two smaller banks in the Federal Deposit Insurance Corporation data room with our excess capital. The bid process alone will slow the approval of the S-1 Registration Statement filing. The proposed later filing date would be 60 days following September 30, 2012, provided, however, such filing can be extended in six-month intervals if, with regard to each six-month interval, both the Board of Directors and the holders of 66 2/3% of the Registrable Shares approve the six-month extension.*
- (2) Special Election Meeting for Directors. In light of the points discussed in point (1) above, it is also important to remove a "Special Election Meeting" provision. This provision, which would require the Company to hold a special election for directors if certain deadlines were not met for becoming a public company, would be replaced with the provisions described above. The reason for this change is to align the mechanism for the date change indicated above.*

When I read and re-read the "two-fold" changes proposed, I come to the same conclusion every time – the language sounds good. So, if the language in the letter to stockholders requesting an amendment to the Bylaws is reasonable then how did we get to where we are today, with no ability whatsoever to call a Special Election Meeting (according to the lawyers).



Included with the letter to stockholders dated May 22, 2012 was the proxy statement. If you read it closely (which I did not do at the time), the actual changes to the Bylaws do not match the changes described in management's letter.

Everything is crossed out except for the following one sentence:

Section 2.2(B) of the Company's Amended and Restated Bylaws is hereby amended by deleting the text of such Section in its entirety and replacing it with the word "Reserved".

Was it reasonable for me to rely on management's representation in its letter or should I have called my lawyer? The letter says: *The reason for this change is to align the mechanism for the date change indicated above.*

If that statement is true then the result does not align with the intention. If and when the registration date is postponed by six months then the Trigger date is postponed by six months – that is alignment and that is what was intended and what was explained to shareholders at the time. **I did not intend to consent to eliminating our rights as shareholders to call a Special Election Meeting** – my only intent was to *align the mechanism for the date change indicated above* – which means align the Trigger date with registration. After discussing this issue with various investors in recent weeks, I now see this bait and switch as **a duplicitous act**. And while I am guilty of voting in favor of postponing registration at a time when focusing on integration seemed of paramount important, I never in a zillion years would agree to relinquish our ability as owners to make necessary changes to the Board of Directors.

Management can hire high-priced lawyers on our dime to argue against our rights but that will never change the fact that if a super-majority of shareholders has lost confidence in the Board and wants them replaced then it is the duty of the members of the Board to resign. **You, the members of the Board of Directors work for us, the shareholders, not the senior executives. You will receive zero percent of the vote at your reelection in June (or near zero if Milton Jones votes his A shares). PLEASE RESIGN PURSUANT TO THE UPCOMING TOWN HALL MEETING WITH A SHRED OF DIGNITY OR BE FIRED UNDER THE HARSH LIMELIGHT OF THE MEDIA.**

The final paragraph of Section 2.2(B) of the Company's Amended and Restated Bylaws states:



(6) Amendment. Until a Special Election Meeting has been held in accordance with the provisions of this Section 2.2(B) or a registration statement has been declared effective as contemplated by the Registration Rights Agreement, this Section 2.2(B) may not be amended by the Board of Directors without the assent or vote of holders of seventy-five percent of the outstanding shares of Class A Voting Common Stock.

Management's lawyers can argue that Section 2.2(B) of the Company's By-Laws was replaced with the word "Reserved" and therefore shareholders have no say in their own company, but that is a pyrrhic victory benefitting only the lawyers. More money wasted so that the Board can cling to its paychecks and tarnished legacy for a few extra months. **IT IS OVER. I REPEAT. YOU WILL NOT BE RE-ELECTED TO THE BOARD OF DIRECTORS IN JUNE 2014 SO PLEASE RESIGN PURSUANT TO THE UPCOMING TOWN HALL MEETING WITH A SHRED OF DIGNITY OR BE FIRED UNDER THE HARSH LIMELIGHT OF THE MEDIA.**

When the inevitable post mortem is conducted and this debacle is sprayed across the cover of the Wall Street Journal, the CertusHoldings Board of Directors might escape attribution if they listen to the shareholders before it's too late.

When I was a freshman in college, I remember this so vividly, because more than one professor used the same imagery – we were told to **conduct ourselves as if our actions would be reported on the front page of the Wall Street Journal.**

How do the senior executives feel about this rule? Are they comfortable with what is about to be shared with the world?

Integrated Capital Services, LLC (ICS)

In their letter to stockholders dated January 28, 2014, management addresses our concerns about conflicts of interest in CertusBank's dealings with Integrated Capital Services, LLC (ICS), a company owned by members of CertusBank's leadership team including Milton Jones, Walter Davis, Charlie Williams, Angela Webb, and Jonathan Charleston. They state, "*As planned, the Company discontinued its services agreement with Integrated Capital Services, LLC (ICS) at December 31, 2013 due in large part to the reduction in need for these services by the Special Assets Bank. It is important to note that engagement of ICS to perform services on behalf of the*



Company was contemplated by the Operating Agreement with the Office of the Comptroller of the Currency (OCC) and the Stock Purchase Agreement with our investors. This relationship has been reviewed by our regulators and auditors without issue. Our legal fees and services from asset-documentation and disposition firms are primarily driven by the Special Assets team as they workout and/or foreclose on properties in the acquired portfolio. These fees are largely offset by payments from the FDIC, which are rolled up into other non-interest income.”

After re-reading this paragraph over and over, I found myself with more questions than before.

Management states, *the Company discontinued its services engagement with Integrated Capital Strategies, LLC (ICS) at December 31, 2013.* Is ICS a going concern? I was told ICS was dissolving at the end of the year, and not merely “discontinuing” its services with the Bank. If ICS were to continue operating with revenues and/or expenses then the entire nature of the relationship between CertusBank and ICS is called into question.

While it is true that *engagement of ICS to perform services on behalf of the Company was contemplated by the Stock Purchase Agreement*, it was said on many occasions, including at least one conference call, that ICS was not profiting at the expense of CertusBank, but a pass-through entity to scale up credit analysts during the transition and work-out of non-performing assets (NPAs) acquired via FDIC-assisted acquisitions of failed banks.

This is a very serious issue that requires immediate attention. Management stated in its January 28, 2014 letter, *“We believe it is our obligation to be as transparent with our investors as possible.”* This is the litmus test of management integrity.

The other issue that management has created with its clumsy attempt to explain away ICS is when it says in the last sentence of the paragraph, *“These fees are largely offset by payments from the FDIC, which are rolled up into other non-interest income.”*

The implications of this statement are profoundly misleading. One, it implies the amount of fees paid to ICS was contemplated at the time of the acquisitions – **NO**. Two, it implies asset management services provided by ICS are reimbursable by the FDIC – **NO**. And three, it implies that ICS is not a profit center.



The Truth about ICS

Since sending out my *Letter to CertusBank Stakeholders dated January 6, 2014*, I have been contacted by various stakeholders who, collectively, have answered many of my questions about ICS or pointed me in the direction of answers. I am now in possession of ICS's audited financial statements² for 2011-2012 and the conclusions to be drawn are simple and obvious:

1. ICS reported \$1,112,809 and \$762,953 of net income in 2011 and 2012 respectively. This proves that Milton has been lying to me since the first time the acronym ICS was uttered in my office in 2011.
2. ICS paid out at least \$1,522,117 in cash to Milton, Walter, Charlie, Angela, and Jonathan Charleston during 2011 through October 2013 (the latest information I have). In addition, ICS owed them \$967,898 in the form of a "Related Party Note Receivable" as of the end of 2012, a note that was paid down to \$748,834 by October 2013.

Integrated Capital Strategies (ICS)				
Audited by GreerWalker LLP				
	2011	2012	Oct 2013	Total
Income Statement Items:				
Revenue	4,820,539	3,716,015	1,665,821	10,202,375
Operating Expenses	3,617,333	2,873,077	1,644,516	8,134,926
Income from Operations	1,203,206	842,938	21,305	2,067,449
% Margin	33.3%	29.3%	1.3%	25.4%
Other Income (Expense):				
Interest Income	0	2,847		2,847
Interest Expense	-90,397	-82,832		-173,229
Total Other Income	-90,397	-79,985	0	-170,382
Net Income	1,112,809	762,953	21,305	1,897,067
Balance Sheet Items:				
Cash	811,075	243,050	162,739	
Related Party Notes Payable	993,191	967,898	748,834	
Paid in Capital	375,000	0	0	
Cash Payments:				
Repayment of Member Capital	200,000	175,000	0	375,000
Distributions	111,000	247,661	0	358,661
Principal Payments on Related Party Notes Payable	125,000	262,521	219,064	606,585
7% Interest Paid on Related Notes Payable	67,000	65,000	49,871	181,871
Total Cash Payments	503,000	750,182	268,935	1,522,117

² Audited by GreerWalker LLP.



3. In 2013 through October, ICS booked revenue of \$1.666 million offset by nearly that much in expenses. The bulk of the expense is \$1.2 million in “personnel” – which leads me to wonder who is included in ICS personnel? Personnel expenses paid at ICS were \$2.885 million and \$2.274 million in 2011 and 2012 respectively.
4. ICS billed monthly through December 31, 2013 in amounts up to and over \$600,000 per month. The OCC has already inquired about excessive invoicing and conflicts of interest, especially given Charlie and Walter approved their own invoices, raising the specter of Regulation W violations (Reg W governs affiliate transactions).
5. The level of overbilling by ICS is at best egregious and possibly criminal. The Board of Directors is under the impression that the rules governing outsourcing have been followed but these people are either negligent or incompetent. The senior executives say that they conducted a formal bidding process in which they received the minimum three bids required by the OCC before pricing the ICS contract with CertusBank. The result is a broadly-worded contract that says, *“The fees for professional services rendered will be based on the ICS customary hourly rates. ICS professional time will be charged to you at the rate of \$35.00 to \$335.00 per hour depending upon the particular professionals’ years of experience and expertise.”* To distance themselves in a superficial manner, Jonathan Charleston signed the agreement on behalf of ICS while Paul Sparks, Executive Vice President and Head of Special Assets, was asked to sign it on behalf of CertusBank. Which he did.
6. Many ICS contractors were billed at \$335 per hour, the high end of the \$35-\$335 per hour contracted range. Here are two obscene examples of overbilling:
 - a. A former ICS contractor was billed at the high end \$335 per hour rate in 2011, costing CertusBank ~\$60,000 per month until management cut his rate to \$275 per hour. In 2012, his services cost CertusBank a total of \$537,475. Meanwhile, he was paid \$150,000 for his work. ICS pocketed the approx. \$350,000 difference (net of taxes).
 - b. Charlie Williams’ son, Bryan Williams, graduated from North Carolina State University and procured a plum job at ICS where despite his inexperience his services were billed to CertusBank at \$194 per hour, for a total of ~\$50,000 per month. Now that CertusBank has terminated its ICS contract, Bryan Williams works for us. According to LinkedIn, Bryan is a “Liquidity Management / Portfolio Analyst at CertusBank.”



A Corrupted Bank

Every item of non-interest expense at the Bank is elevated and unknown to shareholders despite repeated requests for disclosure and transparency. I strongly urge the Bank's auditors to provide this level of detail when compiling and presenting the 2013 audited financial statements.

1. **Consultants** – Aside from the \$3.4 million spent on ICS, CertusBank engaged the services of a dozen or so consulting firms costing the Bank an additional \$8.2 million in 2012. While it is difficult to ascertain if any of these engagements are illegitimate, a few should be investigated more deeply.

- a. The Furman Company – Walter insisted on hiring this commercial real estate company, and we paid them \$1.121 million in 2012.
- b. Orion Advisory LLC – we paid \$809,247 in 2012 for the advice of a Charlotte-based advisory founded by corporate alumni of the GE Company. Much like Milton Jones and Charlie Williams who are Six Sigma Black Belts, Orion are experts at creating world class performance driven organizations using Six Sigma initiatives.
- c. McColl Partners – we paid \$112,500 to Hugh McColl, the former Chairman and CEO of Bank of America.

2. **Flying Private**

- a. Aerocab = \$256,750
- b. Marquis Jet = 90,706
- c. Venture Aviation = \$9,118

3. **Travel and Entertainment (T&E)**

- a. Charlotte Panthers = \$131,250
- b. Charlotte Bobcats = \$54,380
- c. University of South Carolina Gamecocks = \$88,725
- d. Clemson Tiger Sports = \$16,750
- e. PGA Tournament Corp = \$13,491



- f. Private club memberships – Commerce Club in Atlanta = \$48,469; Poinsett Club in Greenville = \$10,335; Bentley's on 27 in Charlotte = \$9,000
- g. Delta Iota Lambda & Alpha Phi Alpha = \$10,000
- h. Universal Attractions = \$7,500
- i. Luxury off-sites and vacation-related expenses – 14 Turtle Beach Lane = \$22,588; Reynolds Plantation = \$16,642; Plantation at Evergreen = \$9,000; Sunset Shores of Cedar Bluff = \$7,350
- j. American Express cards used by Milton, Walter, Charlie and Angela = \$368,780 in 2012 alone, equal to \$30,000 per month. I unfortunately can imagine the personal expenditures being charged to the Bank, and if the auditors do not assess the validity of these expenses then they are negligent.

In an enlightening book about the history of Amazon called “The Everything Store”, the author Brad Stone tells a story about how Jeff Bezos flew into a rage at the mere suggestion that employees who are frequent flyers be allowed to fly business class. “You would have thought I was trying to stop the earth from tilting on its axis,” said the man who made the suggestion, Bill Price, Vice President of Customer Service. “Jeff slammed his hand on the table and said, ‘*That is not how an owner thinks! That’s the dumbest idea I’ve ever heard.*’”

4. \$30 million in Tenant Improvements (TIs)

As discussed in my letter dated January 6, 2014, we estimate Certus spent around \$30 million on tenant improvements (amortized over 20 years, plus approx. \$4 million per annum in rent) for the new bank headquarters at 1 N Main Street in Greenville SC, some of which was spent on the following junk:

- 1. Tallest interactive multi-touch media wall in the United States
- 2. Art Collection – more than \$1 million spent, including:
 - a. \$153,000 for a single painting called *Sixty by Fifty Number III* (2011) by Pat Steir
 - b. \$120,000 for something called *Vulgaris* (2012)
 - c. \$56,100 for *The Dawn of Science* (2004)
 - d. Dozens of others
- 3. 200-seat theater
- 4. \$2 million paid to 4240 Architecture for architectural services



Chief Interior Decorator

Angela Webb is the President of CertusBank. She is an extremely busy woman who is always in “meetings all day”. I have called her five times over the past year and I always get the same answer. Only once have I ever spoken to her and it was only after I left a long message regarding an innocuous issue about media relations, something completely unrelated to operational dysfunction at the Bank. And when I pressed her on the status of cutting operating expenses she deferred me to CFO German Soto. It was clear she was not answering any real questions so I let it drop.

In addition to the \$30 million of tenant improvements spent on CertusBank’s new headquarters, management spent over \$2.5 million on three condos and related FF&E³. \$2.5 million in Greenville is equivalent to tens of millions in New York and the extravagance rivals that of Dennis Kozlowski. For those who don’t remember the details, Dennis Kozlowski (the Koz) was the CEO of Tyco International who went to prison for misappropriating millions of dollars by having Tyco pay for his extravagant lifestyle including a \$30 million New York apartment furnished with opulence that included \$6,000 shower curtains and a \$15,000 dog umbrella stand.

The cost of buying the three condos was \$1,572 million, which means the balance of almost a million dollars was spent on renovations.

- \$11,925 for a wine cellar
- \$15,530 for a tv cabinet
- \$23,135 for electronics
- 9 instances of payments to Steve Madden totaling \$5,039
- And hundreds of thousands of “miscellaneous FF&E” that surely includes shower curtains and an umbrella stand

Angela Webb is directly responsible for all of this ridiculous spending. However, her spree was approved by the others and therefore all four senior executives are culpable.

³ Furniture, Fixtures & Equipment.



The Price of a Secretary

In my letter to stakeholders dated January 6, 2014, I requested information for the umpteenth time about how much CertusBank pays for the secretarial services of Jonathan Charleston, whose company is called The Charleston Group. Since that time I have learned incredibly disturbing information about our secretary including the fact that he is a partner in ICS along with Milton Jones, Walter Davis, Charlie Williams, and Angela Webb. The fact that he is partners with the senior executives makes any transaction between him and CertusBank a *related party* transaction.

Why this has not been disclosed in the audited financial statements of the Bank is obvious – because the numbers are outrageous beyond my wildest nightmare. When I asked Milton Jones directly how much Jonathan Charleston was paid, he said he didn't know exactly.

I said, “A couple of hundred thousand dollars per year...huh?”

He answered, “Yes.”

In 2012, CertusBank paid The Charleston Group at least \$713,450.

Stealing Cars

This next portion of my letter addresses an incident that is widely-known within the bank – an incident that defines gluttony.

When failed banks are seized by the FDIC and turned over to new owners, the keys to branch offices and other properties and assets are literally handed over – dozens of sets of keys. Often, and in the case of CertsuBank's acquisitions, there were vehicles included in the acquisitions that had been used in courier capacities. Typically, acquired vehicles are sold via local dealers; in fact, by order of the OCC, under Regulation O, these vehicles (and all assets for sale) must be sold at market prices.



However, instead of selling these bank assets at market value, Charlie decided to personally buy a 2006 Toyota 4Runner (VIN #: JTEBT14R768036921) directly from the Bank. But instead of paying the \$13,488 well-documented market price, he wrote a check in the nominal amount of \$300.00⁴. Walter Davis approved the sale.

Since fair is fair, Walter also got a truck for \$300.00, and this time Charlie approved the sale.

When the sale of the trucks were reviewed by internal audit, the auditors felt they had no choice but to notify the Board of Directors directly (bypassing the senior executives) of the apparent theft of thirteen thousand dollars and change per vehicle. After some deliberation, the ~\$13k+ differential per vehicle was booked as an accounts receivable, which means the Bank expected Charlie and Walter to pay the difference.

Now here's where the 4Runner incident goes from unreal to surreal – based on advice from lawyers at Wachtell Lipton, payment of the balance due on the trucks would be an acknowledgement of guilt in of itself. This means that if Charlie and Walter were to pay the balance of what they owe then they would be effectively admitting that they tried and failed to steal cars. Ergo, we are paying lawyers to advise our senior executives on how to get away with stealing from the bank.

Auto Insanity

Charlie decided the 4 Runner wasn't luxurious enough so CertusBank bought him a new \$60,000 SUV, one of three bought for the Senior Executives:

1. 2011 GMC Yukon cost \$59,995.95
2. 2011 GMC Denali cost \$60,330.90
3. 2012 GMC Denali cost \$60,974.95

⁴ From his joint account at Bank of America (with his wife, Anita Williams), check #1861 dated December 15, 2011.



Then, to add insult to injury, Charlie decided he didn't want the 4Runner after all and sold it via Walden Automotive Enterprises. We know it's the same truck because it has the same VIN #: JTEBT14R768036921. The asking price was \$13,488.00 before someone negotiated a sale.

Finally, to wrap up the auto insanity at CertusBank, Charlie (and the others) ran up tens of thousands of dollars in limousine services. Here are a few examples:

- From 9/11/12 – 9/13/12, Charlie spent \$2,160 on limo services;
- 8/28/12 – 8/29-12, he spent \$2,115;
- 12/4/12 – 12/6/12, he spent \$1,890;
- And the list goes on and on...

The Déjà Vu of Expense Reductions

The \$25 million of expense reductions identified in management's letter to the stockholders dated January 28, 2014 is at the low end of the \$25-\$30 million range of expense reductions identified in management's letter to stockholders dated two months earlier on November 29, 2013.

Putting aside the fact that \$25 million falls well short of the \$40 million needed for CertusBank to even consider breaking even⁵, management continues to procrastinate on cutting expenses and as a direct result they continue to destroy value. In their January 28, 2014 letter to stockholders, management identifies a \$6 million reduction in salaries and benefits in 1Q14 and states that, *"We are committed to significantly reducing expenses (staff and non-staff) within the Company and putting the Company on a solid, profitable pathway to success. To that end, we have developed a plan to reduce total expenses by \$25 million dollars from the current run-rate by 2Q14."*

When did they come up with this plan?

⁵ As discussed in 3-Sigma Value's Letter to the Stakeholders dated January 6, 2014.



I ask this question because although \$25 million sounds like an earnest effort to restructure, it is actually just a regurgitation of what was stated in management's November 29, 2013 letter to stockholders, as follows:

*"We have recently initiated another round of staff reductions in order to achieve savings of more than \$6 million in salaries and benefits. In addition, we have reorganized the bank into more of a regional business model from a line of business model. This allows us to cover our markets more effectively with a more efficient level of management headcount. In addition, each business leader has received target expense reduction numbers in the following categories: Employee Travel and Meals, Telecommunications, Technology, Business Development, Consultants, Overtime, Temporary Staffing, Subscriptions, and Training. **The combined impact of the reductions in headcount and the above-noted expense line items will reduce overall expenses by \$25-\$30 million in 2014.**"*

The \$25 million of expense reductions identified in the January 28, 2014 letter represents the low end of the \$25-\$30 million range identified in the November 29, 2013 letter, implying there has been **NO** new or incremental thought or planning since the Bank reported horrendous third quarter results, followed by an even worse fourth quarter. Management just repeats the same broken promises. These are just words with no meaning, repeated again to render them even less meaningful.

Where is the budget?

A Material Omission is a Material Misrepresentation

Chief Financial Officer German Soto informed Charlie Williams of his resignation at dinner on Monday January 27, 2014. The next day, on Tuesday January 28, 2014 management sent a letter to stockholders in which they state, "German Soto will report directly to Milton."

If they merely omitted this material piece of information then the deception wouldn't be as indefensible. However, by falsely affirming the employment of the Bank's CFO, they materially misrepresented the operations of the Bank.



Management could argue in defending the veracity of the letter that German gave 30 days' notice (in theory still reporting), but the spirit of the statement and its implication clearly suggest German's employment was not in question.

Management writes in its letter, "*We agree that changes and/or additions to the management are necessary.*" Yet there is no change, no real change at least. Changing organizational titles is not change. Our management team conflates changing organizational titles with making real change – Charlie is now Vice Chairman rather than co-CEO. Walter is CEO.

This is not the change we can believe in.

In addition to the German Soto omission, there are two other material omissions that are so egregious their absence calls into question the comprehensiveness of any of management's communication. The first is the fact that **as of December 31, 2013 the Bank is below its 10% minimum tangible common ratio (TCE) ratio.**

In a normal bank with a professional management team, stakeholders are made aware of significant financial and operational shortfalls in a timely fashion. The omission of this serious regulatory violation from management's letter dated January 28, 2014 is beyond rebuke.

The second material omission from management's recent communication is the fact that management didn't receive consent from the shareholders to extend the S-1 registration statement filing. On November 26, 2013, the shareholders of CertusHoldings, Inc. received a consent form to approve the extension deadline by six months to sixty (60) days after March 31, 2014. A minority consented. However, according to Milton Jones, Certus is not in violation of its Shareholders' Agreement because the company has until May 31, 2014 to register with the SEC. Even if this is technically true, I am appalled at his rationalization of non-disclosure. The absence of disclosure is embedded in the fabric of this corrupted bank. Management operates in fear and denial of the truth. Bad news is delivered at the last second. If it weren't for the fact that the FDIC demanded recognition of the loss-share related provision, management would still be postponing the accounting of reality. In their letter dated January 28, 2014, they call reality *the worst case scenario*, as opposed to merely conservative or prudent. This management team will not face reality until it is a freight train about to run them over.



Meanwhile, there is now a myriad of problems in the loan portfolio. Provision for loan losses jumped \$13.2 million in the fourth quarter of 2013 after increasing \$5.8 million in the third quarter. If it were only one loan or one type of loan having problems then this might not be a big deal but credit issues are manifesting in a diverse array of loans. Loan generation appears adequate (~\$500 million) but is worse in quality than Walter has led us to believe.

And Now We Have a Problem with Loans

The main component of the credit-related loss in the fourth quarter of 2013 is related to the loss-share tranche issue, which management describes as *the worst case scenario*. This is a red herring issue because the other credit issues cropping up in the portfolio are more recent and recurring. Nevertheless, management's explanation of the loss share tranche issue in its letter to stockholders dated January 28, 2014 is a material misrepresentation.

Management wrote, "*We discussed our concern about this change to the FDIC in 2Q13 and they agreed to work with us to find an amicable solution. Presently, this is not an issue for First Georgia Banking Corporation (FGBC), but the change in calculation also will apply to this institution. In the third and fourth quarter of 2013, we exchanged ideas and/or solutions with the FDIC and have presented a very attractive resolution that the FDIC is still reviewing. However, the OCC believes that we should include in the Call Report the worst-case financial impact this change could have on the Bank.*"

The first thing that jumps into my mind is the FDIC forcing the Bank to recognize losses that management has been deferring since at least the second quarter of 2013. To dispel the notion that any of this is a surprise, Charlie Williams signed a letter from the FDIC dated **May 14, 2012** that changed the definition of Covered Losses for the Single Family and Commercial Shared Loss Agreement from gross losses to net losses. The reason it became a serious enough issue to try to renegotiate with the FDIC is because charge-offs were mounting in the first half of 2013, risking management's pretense of pristine underwriting.

Because losses at Atlantic Southern Bank (ASB) were eclipsing the first tranche of loss sharing (70/30 in favor of the Bank), CertusBank became subject to the 30/70 loss sharing split of the second (middle) tranche. In this tranche, CertusBank absorbs a higher percentage of losses and therefore a higher level of charge-offs is required.



As far as management's claim that the \$18 million loss related to the loss share tranche issue is *the worst case scenario*, it's difficult to see why the FDIC would renegotiate this contract but who knows, maybe they'll take pity on us.

Non-profits (a.k.a. Charity Loans)

The two Charity Loans discussed below share the following three basic characteristics:

1. Personal relationship with one of CertusBank's senior executives
2. Day 1 audit issues
3. Non-performing with charge-off potential up to 100%

The first Charity Loan is a cash-out refinance of a community health center that is run by a woman named Beverly Irby who had a pre-existing relationship with one or more of the senior executives. Cash-out means CertusBank loaned more than the amount of the existing loan. The C.W. Williams Community Health Center has been around for more than 25 years. According to its website (CWWilliams.org), "The center operates in two locations, one at the original west side site and the other in midtown Charlotte. It has 10 board certified medical providers on staff and a total of 65 employees."

I am told C.W. Williams has no prior connection to one Charlie Williams – it's just a bizarre coincidence. Either way, it doesn't matter now that the approx. \$800k loan has been charged-off. The C.W. Williams loan originated as a watch credit – which is the very definition of financial irresponsibility.

The second Charity Loan didn't originate as a watch credit but it should have. More than \$1 million was loaned to 100 Black Men of Atlanta, of which Milton was Chairman at the time of CertusBank's formation. The loan is now classified. We are told that Milton forced through the loan in good standing despite objections by the Bank's internal underwriters.

Personal Loans

In a normal situation, the fact that two executives would take out loans at the bank they manage is a fine idea that is hardly controversial, that is unless the underwriting is poor and forced through by the executives, or the rate is a sweetheart rate. I noticed in the 12/31/13 CALL Report (Schedule RC-M – Memoranda) the following:



Extensions of credit by the reporting bank to its executive officers, directors, principal shareholders, and their related interests as of the report date:

- a. Aggregate amount of all extensions of credit to all executive officers, directors, principal shareholders, and their related interests = \$1.423M
- b. Number of executive officers, directors, and principal shareholders to whom the amount of all extensions of credit by the reporting bank = 2

Who are the two executives who borrowed \$1.4 million from the bank? What are the terms of the loans? These shouldn't be difficult questions.

Financial Analysis

As of 12/31/13, CertusBank's TCE⁶ Ratio is below the 10% minimum required by the FDIC. As a result, the Bank must shrink the size of its balance sheet to fit the balance of equity. Total equity capital is \$152.5 million, down from \$233.5 million at the end of 2012 and \$253.8 million at the end of 2011. That is over \$100 million of equity destroyed during a time when equity should have built to over \$300 million (based on a 10% ROE). The absence of financial disclosure on a timely basis requires the shareholders to act now to fix the balance sheet and the bloated infrastructure without resorting to what would be a highly dilutive equity raise. Every day counts.

Source: FDIC.	12/31/2011	3/31/2012	6/30/2012	9/30/2012	12/31/2012	3/31/2013	6/30/2013	9/30/2013	12/31/2013
31. Tier 1 leverage ratio	13.49%	13.80%	13.34%	13.33%	12.48%	11.64%	11.00%	10.54%	8.67%
32. Tier 1 risk-based capital ratio	40.29%	37.18%	37.06%	32.09%	23.41%	21.27%	18.39%	16.16%	12.51%
33. Total risk-based capital ratio	42.67%	38.14%	38.32%	33.35%	24.67%	22.53%	19.65%	17.43%	13.78%

Why didn't management alert shareholders to this potentially devastating capital shortfall in their letter dated January 28, 2014? They obviously knew. They might suggest they weren't required under the company's bylaws but that just shows yet again management's prevarication in its January 28, 2014 letter *to be as transparent with our investors as possible*.

⁶ TCE = tangible common equity.



The financial results for CertusBank are worse than any sane investor could have imagined. The \$82.1 million pre-tax loss in 2013 (versus a miserable pre-tax loss of \$34.6 million in 2012) is proof that this management team has failed.

CertusHoldings, Inc. Balance Sheet (Formerly known as Blue Ridge Holdings, Inc.) <i>in thousands, except share and per share data</i>				
	2013	2012	2011	2010
Income Statement Items:				
Interest & dividend income	72,293	64,628	50,022	30
Interest expense	8,416	10,934	8,661	0
Net interest income	63,877	53,694	41,361	30
<i>Net Interest Margin (NIM) - pre-provision</i>	<i>4.7%</i>	<i>3.6%</i>	<i>5.3%</i>	<i>0.1%</i>
Provision for loan losses	21,934	16,412	6,416	0
Net interest income after provision	41,943	37,282	34,945	30
<i>Net Interest Margin (NIM) - post-provision</i>	<i>3.1%</i>	<i>2.5%</i>	<i>4.4%</i>	<i>0.1%</i>
Noninterest income:				
Gain of FDIC-assisted acquisitions		13,096	110,614	0
FDIC expense reimbursement		13,673	6,437	0
FDIC loss sharing income		30,199	6,363	0
Service charges on deposit accounts		2,497	2,058	0
Mortgage banking income		2,316	487	0
Other (gain on sale of securities, OREO rent, BOLI, merchant income)		11,520	2,352	0
Total noninterest income	21,511	73,301	128,311	0
Noninterest expense:				
Salaries & employee benefits	67,288	47,372	23,740	948
Occupancy and equipment	14,426	9,564	4,406	3
Legal and professional		15,384	9,326	3,310
Other	63,845	71,710	31,413	888
Total noninterest expense	145,559	144,030	68,885	5,149
Income before taxes	-82,105	-33,447	94,371	-5,119
Tax expense	-17,842	-13,129	33,856	0
<i>% Rate</i>	<i>21.7%</i>	<i>39.3%</i>	<i>35.9%</i>	<i>NM</i>
Net Income	-64,263	-20,318	60,515	-5,119
Fully diluted shares outstanding (Class A & Class B)	10,905	10,905	7,683	1,510
EPS	-5.89	-1.86	7.88	-3.39
ROA	-3.7%	-1.1%	6.5%	
ROE	-33.1%	-8.2%	40.3%	

CertusHoldings, Inc. Income Statement (Formerly known as Blue Ridge Holdings, Inc.) <i>in thousands, except share and per share data</i>				
	2013	2012	2011	2010
Balance Sheet Items:				
Assets:				
Cash & equivalents	137,793	272,291	375,720	45,704
Investment securities	275,441	484,736	415,495	0
Loans receivable	863,790	737,254	743,387	0
Allowance for loan and lease losses (ALLL)	-28,136	-17,181	-5,998	0
Total loans receivable, net	835,654	720,073	737,389	0
Total earning assets	1,248,888	1,477,100	1,528,604	45,704
Loans held for sale	111,573	64,148	2,650	0
Other real estate owned	66,819	109,267	80,897	0
FDIC loss share indemnification asset	28,447	85,284	149,879	0
Premises and equipment, net	98,721	57,056	42,822	0
Goodwill and core deposit intangibles, net	14,474	9,009	8,659	0
Other assets	118,585	20,196	13,961	0
Total other assets	438,619	344,960	298,868	0
Total assets	1,659,060	1,822,060	1,827,472	45,704
Liabilities & Stockholders' Equity				
Liabilities:				
Deposits	1,469,701	1,527,758	1,456,606	0
<i>Loan-to-deposit ratio</i>	<i>58.8%</i>	<i>48.3%</i>	<i>51.0%</i>	<i>#DIV/0!</i>
Other liabilities	43,428	58,307	113,668	2,622
Total liabilities	1,513,129	1,586,065	1,570,274	2,622
Stockholders' equity (Book value)				
Total liabilities & stockholders' equity	1,659,060	1,822,060	1,827,472	45,704
Fully diluted shares outstanding	10,905	10,905	10,905	2,906
Book value per share	13.98	21.64	23.59	14.82
Tangible book value per share	12.66	20.81	22.80	14.82
Tangible Common Equity (TCE)	138,026	226,986	248,539	43,082
TCE Ratio (TCE divided by tangible assets)	8.4%	12.5%	13.7%	94.3%

What is CertusBank worth? Only what someone is willing to pay for it. Under a failed leadership team, that is something less than tangible book value (TBV) equal to \$12.66 per share.

On the other hand, if shareholders can coordinate and act fast enough to replace the Board of Directors and subsequently make changes to the management team, then CertusBank can revert from dilution to accretion of book value and earn a multiple in excess of 1x TBV.

The Race Card

I was at my desk when Jonathan Charleston's email hit my inbox. The subject was *CertusHoldings, Inc. Communication to Stockholders*, and I immediately realized it was the communication I had been waiting impatiently for since my last conversation with Milton Jones.



I read through the report with increasing and profound disappointment until I reached the penultimate sentence. The words jumped off the page, leaving me breathless:

We do appreciate you helping us make history as we are the largest African-American managed bank in the country.

In all the years I have known this management team, going back to 2009, not one of them has ever referred to CertusBank as *African-American*. Now, we are not blind, but the fact that Milton Jones, Walter Davis, and Charlie Williams are African-American has never been a factor in evaluating their performance as managers. Since day one, I have judged them as bankers, not African-American bankers, and for them to play the race card at this desperate moment in time is a sad acknowledgement of failure. This is not a social experiment.

I checked through all of my files, which contain every correspondence from this management team since organizing as Blue Ridge Holdings, and there is not a single mention of *African-American*, not once. Milton Jones says it's no big deal, that they're just stating the obvious. But we all know that's not true.

Wow. The Race Card. Played in real life. Maybe we should back off now? Do we let them continue wasting our money because they point out the obvious? The stereotypes are horrible but unfortunately in this case they are true. In June 2012, I visited Milton Jones in his office near the top of 1170 Peachtree Street overlooking Atlanta. A year later, I visited Milton again, except this time he had moved his office up to the top floor. He claimed the Bank was incentivized by the building to trade up but that is beside the point as neither he nor any of them see the pattern of personal excess masked as corporate expense.

My father once told me that *you only know what you've been taught*. Translation: smart people do dumb things. I believe in low overhead. To Milton, low overhead includes paying for the penthouse suite. To Walter, flying private is in the normal course of business. These are smart men who have no business running a small bank. With careers spent politicizing decisions in bulge-bracket banks that we now know are too big to fail, Milton and Walter are figureheads desperately in need of operators. Whether they survive the inevitability of a new Board of Directors depends entirely on their acceptance of new oversight.



As far as Charlie is concerned, the role of Vice Chairman is a joke and I sincerely hope he resigns with a shred of dignity before taking a disproportionate amount of the blame for this epic catastrophe.

We all understand that this management team is politically-supported. In fact, CertusBank donated \$118,750 to the Congressional Black Caucus (CBC) Institute in 2012 alone. A common characteristic of corporate fraudsters and the misappropriation of corporate assets is a very public generosity to charities. CertusBank is no exception. In addition to the CBC, charitable giving in 2012 included the following:

- The Peace Center for the Performing Arts = \$105,000
- United Way of Greenville County = \$30,655
- University of South Carolina = \$29,575
- Ronald McDonald House = \$25,200
- Clemson University Foundation = \$25,000
- Mayo Clinic Jacksonville = \$14,016
- National Park Foundation = \$10,000
- USC-Business Partnership Foundation = \$10,000
- 100 Black Men of Atlanta, Inc = \$9,000
- Harvard Business School = \$8,500
- Goodwill Works Foundation = \$5,000
- Urban League of the Upstate = \$5,000⁷

Necessary and Minimum Actions

After sending my letter dated January 6, 2014, I spoke to Milton Jones about the necessary and minimum actions for management to undertake in order to begin the restoration of credibility and confidence. I followed up that conversation with this email to Milton Jones and Walter Davis (cc: German Soto):

⁷ Gifts below \$5,000 are not included in this list.



Sent: Mon 1/13/2014 12:01 PM

Gentlemen,

As you prepare your communication to investors, please address three main issues. I have spoken to many investors and if you can resolve these issues then maybe we can save this ship.

- 1. Access to information/transparency – Please set up a data room so that investors can have access to all the information we request.*
- 2. Expense reductions – Please explain in detail the \$40 million of annualized non-interest expense reductions needed to breakeven on today's revenue base (any incremental revenue is pure margin on top of a breakeven level of non-interest expense ~\$100 million).*
- 3. Board of Directors – Please propose the addition of 2 new board members representing investors.*

Thank you very much for understanding the severity of the situation. Please take care of these three items. They are not unreasonable and it will begin the restoration of your credibility.

*Best regards,
Benjamin Weinger
Portfolio Manager
3-Sigma Value*

Needless to say, management's letter to stockholders dated January 28, 2014 failed to sufficiently address any of my three base issues.

1. Still no data room. Following is the minimum information required to fulfill management's declaration in its letter *to be as transparent with our investors as possible*. I sincerely hope that management doesn't attempt to hide behind a misleading interpretation of the word *possible*.
 - a. 2013 budget that was approved by the Board of Directors.
 - b. 2014 budget
 - c. ICS audit and tax returns for the years 2011-2013
 - d. Total payments to the Charleston Group 2011-2013
 - e. Breakdown of Professional & Consulting, and Legal & Audit fees by vendor 2011-2013



- f. Breakdown of tenant improvements for the new headquarters and all de novo branches
- g. Breakdown of all expenditures related to CertusHoldings – the name given to account for the 3 condos CertusBank purchased for \$2.5 million including FF&E
- h. Minutes from the last 180 days of board meetings

All of this information is not only possible to share with shareholders; it is easy to share (except for the budgets if they don't actually exist). I beg of you to live up to the spirit of your words when you say in your letter, "*We believe it is our obligation to be as transparent with our investors as possible.*"

- 2. Expense Reductions are Neither Credible Nor Adequate. As discussed earlier in the section titled **The Déjà Vu of Expense Reductions**, management's claim of identifying \$25 million of expense reductions to be realized in 2014 is merely a regurgitation of the \$25-\$30 million range identified in their letter dated November 29, 2013. Losses far exceeded their expectations yet they find less to cut. If they found \$25-\$30 million to cut in November, and I can easily find \$40 million, then how do they justify identifying only \$25 million now? Meanwhile, the whole thing is moot because there is no data room and neither German Soto nor Paul Sparks are around to deliver numbers that we can believe in.
- 3. Investor Representation on the Board of Directors. By suggesting that the Board add two new members (either replacing two current members or adding the two), I felt that would be the fastest way to effect change and facilitate a smoother transition when the rest of the Board is replaced at the upcoming election. It is important to note that under OCC rules, investors can not represent more than 40% of the members of a Board of Directors.

Because management's response to my concerns expressed both in writing and on the phone have been entirely insufficient up until this point, I have no choice but to **ask my fellow shareholders to sign a no-confidence petition demanding the immediate resignation of the Board of Directors.** If we can get 100% of the shareholders⁸ (or near 100% assuming Milton Jones doesn't sign) then that is unilateral and that is indefensible.

⁸ Excluding any shareholder restricted under a passivity agreement.



I request that all shareholders join me – no I beg the shareholders to join me for a town hall meeting on Tuesday March 11, 2014 at 11am EST. The purpose of this meeting is singular – to nominate a new slate of directors to replace a Board of Directors that has violated its fiduciary responsibilities as our representatives.

Dial in number: (712) 432-1212

Meeting ID: 517820123#

If any shareholders are unable to attend this town hall meeting, then please email me at ben@3sigmavalue.com (or call me at 646-452-3005) so that we can coordinate the signing of the petition.

Thank you very much for acting to preserve value. I am available at any time to discuss further and in more detail.

Sincerely,

Benjamin Weinger
Portfolio Manager
3-Sigma Value Financial Opportunities, LP