

Value: The Community Bank Wall Street Report

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Flushing Financial Corp. President and CEO John Buran marked the 10th anniversary of the banking company's NASDAQ listing by presiding over the close of trading on Sept. 13.

ACB-NASDAQ Index Helps Community Banks Tell Their Stories to Investors

By Helen Sullivan

As the America's Community Bankers NASDAQ Index approaches its second anniversary in December, it seems fitting to look back at what has been accomplished through its creation. What started as conversation over the need for more independent research on community banks has developed into a stock index which has brought significant attention to the often-overlooked small- and mid-cap segments of the banking industry.

The formation of the Index catapulted ACB and community banks into the direct gaze of Wall Street. ACB was the first national trade association to create an index specifically for its industry.

And as the Index gains wider acceptance as an industry benchmark, Wall Street has embraced ACB's foray into investor conferences.

By the end of this year, ACB will have completed four Community Bank Investor Conferences in New York. And plans are under way to take the show on the road to San Francisco in February and at least one other major U.S. city during 2006. (See page 4 for details on participating.)

ACB is the first and only trade association to sponsor an such event. ACB created the Community Bank Investor Conference with the goal of raising the profile of the component banks in the Index, also known as the ACBQ. The results were that, and more. What developed was a platform for bankers to communicate their financial results to a unique and powerful segment of the investment community.

As a trade association, ACB has no investment bias, and can invite both buy-side and



ACB's Helen Sullivan (second from left) chats with Community Bank Investor Conference participants in New York in May. At left is Rick Weiss, bank equity analyst for Janney Montgomery Scott and a frequent panelist on the program.

sell-side analysts, as well as portfolio managers and individual investors, to its investor events. This allows each individual story to reach a broad audience.

Another successful component of the conference is the Investor Relations Bootcamp. ACB brought together Wall Street professionals and investor relations expert to educate bankers on the strategies and tactics for successful investor relations programs.

All along, the index quietly continues to grow. As of June 30, 2005, the market capitalization equaled nearly \$300 billion. The index included 514 community banks.

As of Sept. 27, 2005, the total-return Index stood at 287.89, up 15.2 percent since its inception on Dec. 2, 2003. «

Helen Sullivan is senior vice president for capital markets with ACB Business Partners.

Dates Are Set for San Francisco, New York Community Bank Investor Conferences

America's Community Bankers has scheduled two more Community Bank Investor Conferences in the coming months, and slots for presenters are filling up fast.

The New York Hilton & Towers is the site for the next ACB Community Bank Investor Conference, scheduled for Nov. 9-10, 2005. And on Feb. 21-22, 2006, ACB takes the conference west for the first time, to San Francisco's Palace Hotel. Additional venues are under consideration for 2006.

The fall and winter events build on the success of the three investor conferences ACB held in New York in May 2004, November 2004, and May 2005. Each conference featured at least 16 bank presentations, and drew upwards of 200 participants, including individual and institutional investors, equity analysts, and portfolio managers from mutual funds and hedge funds. Bankers who

presented at the conferences have credited it with raising their profile among establishing investors and attracting new and prospective ones.

As in the past, each conference will begin with a half-day Investor Relations Bootcamp, followed by a full day of back-to-back presentations by bankers. Most presenters will be members of the America's Community Bankers NASDAQ Index, but for the first time a few slots are being for non-NASDAQ-listed banks, including those listed on other stock markets and traded over the counter.

Following is a partial list of confirmed presenters at the upcoming conferences. To learn more about attending or presenting at the conferences, please contact Helen Sullivan, senior vice president for capital markets with ACB Business Partners, at 202-857-3157, or at hsullivan@acbankers.org. «

New York, Nov. 9-10, 2005

Columbia Bancorp (CBBO)
 Cooperative Bancshares (COOP)
 Evans Bancorp (EVBN)
 First National Bank (FNBN)
 Flushing Financial (FFIC)
 HF Financial (HFFC)
 Independence Community (ICBC)
 KNBT Bancorp (KNBT)
 Provident Financial Services (PFS)
 Riverview Savings (RVSB)
 Sterling Financial Corp. (STSA)
 TIB Financial Corp. (TIBBI)
 Wainwright Bank & Trust Co. (WAIN)

San Francisco, Feb. 21-22, 2006

BofI Holding Inc. (BOFI)
 Commerce Bank of Redding (CCBI)
 First Niagara Bancorp (FNFG)
 MAF Bancorp (MAFB)
 Northwest Savings Bank (NWSB)
 Pacific Premier Bank (PPBI)
 Provident Financial (PROV)
 Pulaski Bancorp (PULB)
 Sterling Financial (STSA)

Scenes From the May Conference

Twelve months, three ACB Community Bank Investor Conferences. Since it was first held in May 2004, the forum has become a powerful draw for bankers, investors, and analysts. The most recent gathering, held in New York May 18-19, attracted 200 participants,

and featured 16 banks from 11 states, with assets ranging from \$425 million to \$7.9 billion. Presenters at each day-and-a-half-long Community Bank Investor Conference are selected from among the more than 500 community banks that make up the America's Community

Bankers NASDAQ Index. A half-day investor relations bootcamp kicks off the program, followed by a full day of bank presentations. «

Below left, a trio of executives from Bancshares of Florida Inc. (BOFI) told their story to investors, analysts, and other bankers. At right, Van Negris, chief executive officer of a consulting firm that bears his name, laid out the basics of an effective investor relations program.



SEC and PCAOB Issue First Sarbanes-Oxley Guidance Since Implementing Internal Control Provisions

By Trent Gazzaway
Adapted from an article published in June 2005.

During the Securities and Exchange Commission's April 13, 2005, roundtable meeting debriefing on the first year of Sarbanes-Oxley Section 404, both the Commission and the Public Company Accounting Oversight Board received much feedback regarding the experiences of companies and auditors.

During that meeting, many of the participants expressed positive comments about the impact of the implementation of Section 404. The primary purpose of the meeting, however, was to identify improvements that might be made in the guidance related to the implementation of the rules and standards.

Along those lines, several themes emerged that have now been at least initially addressed by guidance issued by the SEC and the PCAOB on May 16, 2005.

The SEC's guidance is primarily directed towards public companies and the PCAOB's guidance is technically directed towards auditors of public companies. Companies and auditors should carefully consider both.

The SEC's guidance, which can be viewed at www.sec.gov/info/accountants/stafficreporting.htm, encouraged the application of reasoned judgment and a top-down, risk-based approach to the evaluation of internal controls. This particular encouragement, which is probably the most significant of all of the guidance issued, was fleshed out in greater detail in the PCAOB's Q&A document, discussed below. In addition, the SEC offered much desired relief in three key areas:

1. As long as management is making the final determination regarding accounting application, and the auditor is not designing or implementing accounting policies, then the auditor's related involvement and timely dialogue with



management is appropriate and often desired.

2. A financial statement restatement due to errors does not automatically mean that a material weakness exists. Management and the auditor

should use judgment in assessing the reasons for the misstatement in determining whether a material weakness exists.

3. Auditor-identified errors in draft financial statements should not be the sole basis for the determination that a deficiency in internal controls exists. Again, management and the auditor should use judgment in assessing the reasons for the error in determining whether a material weakness exists.

The PCAOB issued their guidance through their fifth staff Q&A document. (See all of the PCAOB's Q&As at www.pcaobus.org/Standards/Staff_Questions_and_Answers.) Like the SEC, the PCAOB pressed for a top down, risk-based approach, while also encouraging the further integration of the audits of internal controls with the audits of financial statements.

In calling for a top-down approach with appropriate judgment, the PCAOB suggested that auditors should first evaluate and test the company-level controls within an organization and use that evidence to support risk assessments at the account, assertion and process levels. This will prove to be the most helpful and, at the same time, the most difficult change to effectively apply in the coming year.

In a nutshell, the top-down approach involves a continual filtering of risk throughout the evaluation process.

Focusing on the company-level controls first will help from an efficiency perspective because it will lend support for the auditors to lower activity-level audit scopes in certain areas. Specifi-

cally, the auditor can use the results of the company level controls audit work to support the testing strategy for activity-level controls.

The elevation of the importance and impact of the company-level control audit work will prove to be one of the most difficult aspects of this latest round of guidance to apply. First, determining where company level controls can effectively reduce risk at the activity-level will require significant judgment with few existing precedents. Likewise, determining the level to which "effective" company-level controls should reduce the amount of detailed control testing at the activity-level is equally judgmental with no existing precedents.

Undoubtedly, management and the auditors will be wrestling over these judgments during the 2005 audit season. It is important to note, however, that the PCAOB stated in the answer to question No. 44 that "testing of company-level controls alone is not sufficient." In other words, effective company-level controls can impact the amount of testing work performed on other controls, but it will not eliminate that work.

In addition, the PCAOB's encouragement for auditors to more fully integrate the audit of the financial statements with the audit of internal controls will help advance that cause in fiscal 2005 in the name of efficiency. However, companies should not expect auditors in the main to immediately reduce drastically the amount of substantive audit work they perform on the financial statements.

It will take several years of understanding and testing internal controls before auditors, investors and regulators will be comfortable with substantial reductions in the amount of financial statement audit work for the average company. That said, the understanding and comfort gained last year will have a positive impact on the efficiency of the upcoming financial statement audit process.

Overall, both the SEC and the PCAOB

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Federal Court Rejects SEC's Arguments In The First Trial Over Regulation FD

By Diane Koonjy

In a welcome development for public companies, a federal judge recently dismissed the first Regulation Fair Disclosure case that made it to trial. The Securities and Exchange Commission's Regulation FD prohibits public companies from disclosing material nonpublic information privately to securities analysts, broker-dealers, investment advisers and institutional investors without simultaneously disclosing that information to the general public.

The SEC brought the lawsuit against Siebel Systems Inc., a leading provider of electronic business applications, before the U.S. District Court for the Southern District of New York.

The SEC alleged that in 2003, Siebel's chief financial officer released information about the company at private events that differed from released by the company's Chairman in public remarks made two days earlier. The company refused to settle the case before trial, arguing that the information disclosed by the different officers was substantively the same.

Ruling on Sept. 1, the court agreed with Siebel and dismissed the lawsuit.



The court concluded that the SEC was dissecting the company's statements at an extremely heightened level not called for by the regulation. The court stated that "Regulation FD does not require that corporate officials only utter verbatim statements that were previously publicly made." The court said, "Fair accuracy, not perfection, is the appropriate standard."

The court concluded that the SEC's application of Regulation FD in such an aggressive manner could have a chilling effect, which could discourage, rather than encourage, public disclosure of material information.

This case is good news for those public companies that attempt to comply in good faith with Regulation FD.

While this court's conclusions are based on the specific facts of the company's disclosures, the case does show that at least one court is willing to take a practical approach to Regulation FD compliance. «

Diane Koonjy is senior regulatory counsel in ACB's Government Affairs Dept.

Internal Control Provisions

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provided some much needed guidance to help ease the burden of applying Sarbanes-Oxley Section 404. But the May 16, 2005, material is not the last word. COSO is set to issue some additional guidance, probably in October, for applying the COSO Framework. That information is being developed primarily for smaller public companies, but you can expect all companies regardless of size to gain valuable insights. In addition, the SEC and the PCAOB may issue additional material as the months go on. The passage of the Sarbanes-Oxley Act of 2002 was the single largest change to public company financial reporting since the Securities Exchange Act of 1934. The adoption of Auditing Standard No. 2 was the single largest change to public company auditing in the history of auditing. We can expect continued improvement for many years. The May 16, 2005, guidance is a good start. «

To learn more, please contact Trent Gazzaway, Grant Thornton managing partner of corporate governance, at 704.632.6834 or Trent.Gazzaway@gt.com

Looking for an investor relations resource geared exclusively to community bankers? You need the Investor Relations Handbook, a 238-page volume published by America's Community Bankers. It provides detailed guidance on what investors want, how to communicate with them, how to navigate key regulatory and legal issues, and best practices. Priced at \$125 for ACB members, \$250 for nonmembers. To order, call ACB at 1-888-872-0568.



About America's Community Bankers

America's Community Bankers is the member-driven trade association that represents the nation's community banks. ACB members, whose combined assets exceed \$1 trillion, pursue progressive, entrepreneurial, and service-oriented strategies to benefit their customers and communities.

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