



## **STR Holdings, Inc. (STRI)** *A Turnaround Play in Solar Power*

*Rating:*  
**BUY**

**STR Holdings, Inc.**  
18 Craftsman Road  
East Windsor, CT 06088  
Phone: (860) 758-7300  
www.strsolar.com

### **BRIEF REPORT ON STRI:**

**Published March 25, 2015**

**Target Price: \$2.15**

**Recent Price: \$1.50**

- **Company will announce Q4 2014 results on March 26, 2015.**
- **Sales for Q3 2014 reach \$9.5 million versus \$6.2 million for Q3 2013.**
- **Company reports \$2.5 million in selling, general, and administrative expenses for Q3 2014, versus \$4.6 million in Q3 2013.**
- **Company reports a loss of \$0.11 per share for Q3 2014, versus a loss of \$0.12 per share for Q3 2013.**

### **COMPANY OVERVIEW AND PRODUCTS:**

STR Holdings, Inc. (NYSE: STRI), (“the company”) is headquartered in East Windsor, Connecticut, and is a holding company which designs, develops, manufactures, and sells high quality solar encapsulants with superior performance into the photovoltaic module (or solar) industry. Encapsulant is a critical component used to protect and hold solar modules together. The company’s products are used in crystalline silicon and thin-film solar modules. The company’s polymeric PhotoCap® products consist primarily of ethylene-vinyl-acetate, (“EVA”), which is modified with additives and put through proprietary manufacturing processes to increase product stability and make the encapsulant suitable for use in extreme, long-term outdoor applications and commercial solar module manufacturing. The company supplies solar module encapsulants to major solar module manufacturers.

The company was founded in 1944 as DeBell and Richardson, Inc., when two prominent polymer scientists, John DeBell and Henry Richardson, started the first dedicated plastics research and development firm in the United States. The company gained a reputation for innovation in engineered compounds and technical services for the plastics industry, and created and patented dozens of plastics that are commonly in use today. In 1972 the company, which became known as Springborn Laboratories, expanded into product testing analysis and quality assurance for companies in chemicals, consumer merchandise, electrical and electronics products, and plastics. Following over a decade of evaluating and testing hundreds of polymeric materials and modifier combinations, as well as years of advance weathering studies, in 1975 the company developed EVA encapsulants for terrestrial photovoltaic modules.



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These modified ethylene vinyl acetate copolymer modules provided the best combination of performance and cost. In 1979, the company began marketing EVA for the photovoltaic module industry under the trade name PhotoCap®. Customer demand for PhotoCap® EVA became strong enough that the company, then known as Springborn Testing and Research (STR), expanded its pilot manufacturing operation into production-scale operations. During the 1990's the company changed its name to Specialized Technology Resources, Inc. and further refined its EVA photovoltaic encapsulants to provide better long-term photo-thermal stability, faster curing capability, and dimensional stability.

In 2002, the company formed a Spanish company, Specialized Technology Resources España, S.A., (STRE) in Asturias, Spain, to better serve its growing customer base in Europe. In 2009, the company opened a factory, Specialized Technology Resources (Malaysia), which serves the Asian PV market, was launched in Gelang Patah, Johor, Malasia in 2009.

A rapid shift in solar module production from the United States and Europe, to Asia, as well as the loss of First Solar Inc., the company's largest customer in 2013, have driven the company's sales and profitability significantly lower since 2011. In response, the company has reduced operating expenses by closing facilities and reducing headcount.

In December 2014 the company entered into a strategic relationship with Zhenfa Energy Group Co., Ltd., a leading developer of solar PV power stations based in Chongqing, China. As part of this relationship, the company sold 51% of its common stock to Zhenfa Energy Group Co., Ltd.

The company's competitive advantage is its solar encapsulant which allows the company to produce solar modules with increased longevity at a lower price. This allows the company's customers to sell more profitable solar systems. The company has a 30-year track record of manufacturing encapsulants with zero field failures. The company's current Photocap® product line consists of fourteen commercial encapsulant formulations, offering advantages in photothermal stability, ultra-fast product curing, lower product lamination cycle time, and higher transmission in the UV wavelength to allow greater power generation.

### **MARKET AND COMPETITION:**

Global solar power installations have risen by over 50% per year, on average, since 2006.<sup>1</sup> The industry's near-term results have been impacted by the financial crisis of 2008, inexpensive natural gas, reduced government subsidies, and a significant increase in output from Chinese solar-panel manufacturers. In the longer-term, decreases in module costs, as well as even larger decreases in the costs associated with the installation and service of solar installations.

Such "downstream" or "soft" costs as financing, customer acquisition, regulatory incentives and approvals makeup approximately half of the expense of residential installations in the United States.<sup>2</sup>



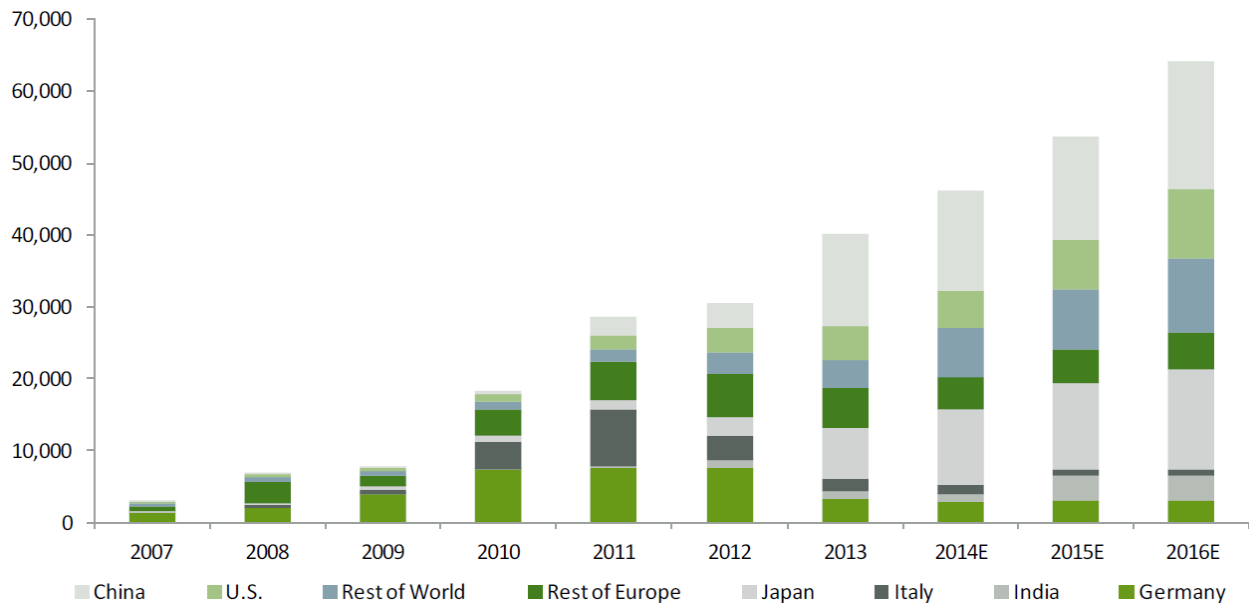
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According to the report *The Disruptive Potential of Solar Power* by pv-magazine.com, overall costs to U.S. consumers are expected to fall to \$2.30 per kilowatt hour (“KW”) by 2015, and to \$1.60 per KW by 2020. These cost reductions are expected to make solar power competitive with traditional power-generation technologies, including coal, natural gas, and nuclear energy. Projected industry growth and geographic breakdown of PV installations world-wide is shown below.<sup>3</sup>

**Annual Global PV Installations, 2007 – 2016E**  
 (MW)



The company competes with a number of competitors in the PV encapsulant industry. Many of these competitors are larger and better funded than the company. The company’s competitors include: Bridgestone Corporation; Hangzhou First PV Material Co., Ltd; Mitsui Chemicals Group, Inc.; SK Chemical Ltd.; 3M Company; Dow Chemical Corporation; Dow Corning Corporation; Dai Nippon Printing Co., Ltd.; and E.I. DuPont De Nemours and Company (“DuPont”).<sup>4</sup> The company’s market share, as well as the market shares of its major competitors can be seen on the following page.<sup>5</sup>

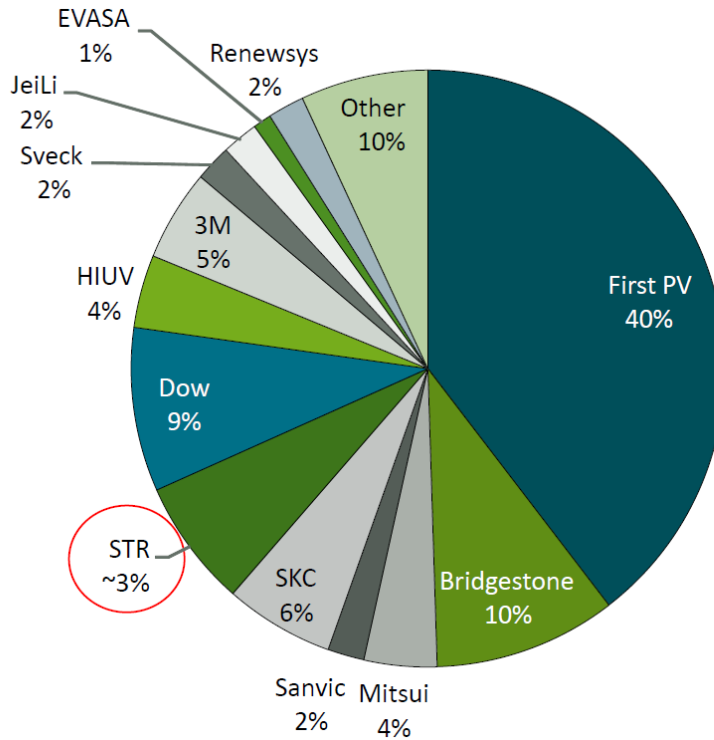


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## MANAGEMENT:

**Robert S. Yorgensen – President and Chief Executive Officer** – Mr. Yorgensen has been President and CEO of the company, and a director of the company’s Board of Directors, since January 2012. Prior to becoming CEO, Mr. Yorgensen was President of the company’s solar division since 2007. Mr. Yorgensen has been with the company for 27 years in a variety of positions, including: Extruded Products Manager and Senior Technical Specialist of Materials RD&E and Specialty Manufacturing; Technical Specialist of Materials RD&E and Specialty Manufacturing; and Project Leader of Development Engineering and Specialty Manufacturing. Mr. Yorgensen has a Bachelor of Technology, Mechanical Engineering from the University of Connecticut and an A.S. from Hartford State Technical College.

**Alan N. Forman – Senior Vice President and General Counsel** – Mr. Forman has been the company’s Senior Vice President and General Counsel since April 2012, and was its Vice President and General Counsel since May 2010. Mr. Forman is responsible for all human resource and legal affairs of the company. Prior to joining the company, Mr. Forman was a partner at Brown Rudnick LLP, and a member of their CleanTech team. Mr. Forman has experience in corporate and securities law, including: intellectual property; licensing agreements; financing transactions; corporate governance; and mergers and acquisitions. Mr. Forman holds a B.A. in Economics from Emory University and a J.D. from the George Washington University Law School.



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**Joseph C. Radziewicz – Vice President and Chief Financial Officer** – Mr. Radziewicz has been the company's Vice President and Chief Financial Officer since September 2012, and is responsible for all finance and accounting functions of the company. Mr. Radziewicz served as the company's Controller and Principal Accounting Officer from January 2009 until September 2012. Prior to joining the company, Mr. Radziewicz held financial management positions at The Stanley Works and PricewaterhouseCoopers LLP. Mr. Radziewicz has experience in accounting and finance, including: SEC reporting; capital market transactions; working capital management; treasury operations; risk management; internal controls; and mergers and acquisitions. Mr. Radziewicz graduated summa cum laude from Bryant University with a B.A. in Business Administration and Financial Reporting. Mr. Radziewicz is a Certified Public Accountant, a Certified Management Accountant, and a Certified Financial Manager.

### **RECENT DEVELOPMENTS:**

On Friday, March 20, 2015, the company announced that it would release financial results for the fourth quarter of 2014 after the market close on Thursday, March 26, 2015. An investor conference call with company management will take place at 4:30 PM E.T.

On Friday, January 30, 2015, the company filed a Form 8-K with the Securities and Exchange Commission, which amended the company's Certificate of Incorporation to affect a reverse stock split of the company's common stock. The reverse stock split was at a ratio of one share-for-every-three shares of the company's outstanding common stock.

On Monday, January 26, 2015, the company announced that it had been notified by the New York Stock Exchange ("NYSE") that it was not in compliance with NYSE Listed Company Manual Section 802.01C because the average closing price of the company's common stock had been less than \$1.00 per share for 30 consecutive trading days. Among other requirements, the company must bring its share price and average share price above \$1.00 within six months following receipt of noncompliance. To cure this deficiency, the company announced that it was pursuing a reverse stock split.

On Monday, December 15, 2014, the company filed a Form 8-K with the Securities and Exchange Commission, announced the closing of the sale of 27,632,130 shares of its authorized but unissued common stock, par value \$0.01 per share to Zhen Fa New Energy (U.S.) Co., Ltd., a Nevada corporation, and indirect subsidiary of Zhenfa Energy Group Co. Ltd., a Chinese limited liability company. The aggregate purchase price of the company's stock was approximately \$21.7 million. Following the purchase, Zhenfa Energy Group Co. Ltd., owns approximately 51% of the company's outstanding common stock, and the share issuance resulted in a change of control of the company. In conjunction with this transaction, two members of the company's Board of Directors resigned, and the Board was expanded from five members to seven members. Four new directors were appointed by Zhenfa Energy Group Co. Ltd.



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**OUTLOOK:**

As reported in the company's most recent financial results, the company has seen a recovery in net sales for the three and nine month periods ended September 30, 2014. Sales for the third quarter of 2014 reached approximately \$9.5 million versus approximately \$6.2 million for Q3 2013. Gross loss increased to approximately \$1.0 million in Q3 2014, versus a gross loss of approximately \$821,000 for Q3 2013.

For the nine months ended September 30, 2014, net sales for the company increased 19.4%, reaching approximately \$30.1 million versus approximately \$25.2 million for the same period in 2013.

Gross loss increased to approximately \$2.9 million for the nine months ended September 30, 2014, versus a gross loss of approximately \$1.2 million for the same period in 2013. The company's comprehensive loss for the nine months ended September 30, 2014 was approximately \$11.6 million or \$0.28 per share from continuing operations, versus a loss of approximately \$14.3 million, or \$35 per share for the same period in 2013. The company had approximately \$22.8 million in cash as of September 30, 2014, as compared to approximately \$58.2 million in cash on December 31, 2013.

**RECENT PRICE ACTION:**

As can be seen on the chart below, the company's stock bottomed at approximately \$1.30 per share on Friday, March 20, 2015, and has moved sharply higher during the past two trading sessions. This move was accompanied by a significant increase in trading volume versus the three-month average of 57,073 shares, and the company's stock closed at \$1.50 per share on 435,888 shares traded on Tuesday, March 24, 2015.<sup>6</sup>



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## VALUATION:

To arrive at valuation for the company, I relied upon technical analysis, and used projected Fibonacci fan lines to arrive at a three month price target of \$2.15 per share. Projected Fibonacci Fan lines are trend lines based on Fibonacci retracement points. These fan lines can be used to estimate support levels. Rising fan lines extend upward from a trough and project advances based on the advance (from trough to peak).<sup>7</sup> These projections can be seen on the following page.<sup>8</sup> I anticipate revising my price target higher as the company posts improving fundamental results.







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### ***BOTTOM LINE:***

As with an investment in many smaller technology companies that are not profitable, an investment in the shares of STR Holdings, Inc. is potentially a “high risk, high reward” situation. The company is focused on the recovering solar power industry, and has the potential to recover much of the market share that it has lost over the past four years.

The company’s share price is likely to remain highly volatile and will react to news releases, such as new product announcements, and the upcoming earnings announcement for the fourth quarter of 2014. With the company’s focus on cost containment and recovering sales and volume levels, I am initiating coverage with a Buy recommendation. More risk adverse investors should consider waiting to establish positions until after the company’s Q4 2014 conference call on March 26, 2015.

### ***RISK FACTORS:***

An investment in the common stock of the company is subject to a number of risks. The information below contains excerpts of some of the risk factors included in the company’s Form 10-K for the fiscal year ended December 31, 2013<sup>9</sup>, and should be considered by all investors. Investors should carefully consider the risk factors set out below and consider all other information contained herein, and in the company’s SEC filings, before making an investment decision. We assume no obligation to update or revise any such forward-looking statements to reflect events or circumstances that occur after such statements are made. A more complete list of risk factors for the company can be found beginning on page 16 of its Form 10-K filing, dated December 31, 2013, which is available on the SEC’s Edgar website: <http://www.sec.gov/Archives/edgar/data/1473597/000104746914002277/a2218855z10-k.htm>.

- The company has recently incurred substantial losses and it may not be able to achieve or sustain profitability in the future.
- The company currently relies on a single product line for all of its net sales.
- One of the strategic alternatives that the company’s Board of Directors could pursue is the dissolution and liquidation of the company, which may be a lengthy process, yield unexpected results and diminish or delay any potential distributions to its stockholders.
- The company’s growth is dependent upon securing sales to new customers, growing net sales to existing key customers and increasing its market share, particularly in China.
- The company is dependent on a limited number of customers, which may cause significant fluctuations or result in declines in its net sales.
- The company will need to outsource and rely on third parties for the manufacture of a portion of its encapsulants, and its future success will be dependent on the timeliness and effectiveness of the efforts of these third parties.



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- Technological changes in the solar energy industry or the company's failure to develop and introduce or integrate new technologies could render its encapsulants uncompetitive or obsolete, which would adversely affect its business.
- The company faces competition in its business from other companies producing encapsulants for solar modules.
- Failure to manufacture product in China could negatively affect the company's ability to sell to Chinese solar module manufacturers.
- Excess capacity currently exists throughout the solar supply chain leading to substantial solar module price declines, which has caused cost to become the predominant factor in the encapsulant procurement process.
- If demand for solar energy in general and solar modules in particular does not continue to develop or takes longer to develop than the company anticipates, net sales in its business may continue to stagnate or decline, which would negatively affect its financial condition and results of operations.

The company's operations and assets in China are subject to significant political and economic uncertainties.

- The company may have limited legal recourse under the laws of China if disputes arise under its agreements with third parties.
- The company's potential inability to adequately protect its intellectual property during the outsourced manufacturing of its products in China could negatively impact its performance.
- The company currently has no credit facility and may not be able to obtain credit.
- A significant reduction or elimination of government subsidies and economic incentives or a change in government policies that promote the use of solar energy could have a material adverse effect on the company's business and prospects.
- The company's gross margins and profitability may be adversely affected by rising commodity costs.
- Deterioration of the company's customers' financial profile may cause additional credit risk on its accounts receivable.
- If the company is unable to attract, train and retain key personnel, its business may be materially and adversely affected.
- The company's dependence on a limited number of third-party suppliers for raw materials for its encapsulants and other significant materials used in its process could prevent it from timely delivery of encapsulants to the company's customers in the required quantities, which could result in order cancellations and decreased net sales.
- Problems with product quality or product performance, including defects, could result in a decrease in customers and net sales, unexpected expenses and loss of market share.
- Changes to existing regulations and capacity in the utility sector and the solar energy industry may present technical, regulatory and economic barriers to the purchase and use of solar modules, which in turn may significantly reduce demand for the company's products.



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- The company typically relies upon trade secrets and contractual restrictions, and not patents, to protect its proprietary rights. Failure to protect its intellectual property rights may undermine its competitive position and protecting the company's rights or defending against third-party allegations of infringement may be costly.
- The sales cycle for the company's encapsulants can be lengthy, which could result in uncertainty and delays in generating net sales.
- As a supplier to solar module manufacturers, disruptions in any other component of the supply chain to solar module manufacturers may adversely affect the company's customers and consequently limit the growth of its business and net sales.
- The company generally operates on a purchase order basis with its customers, and their ability to cancel, reduce, or postpone orders could reduce the company's net sales and increase its costs.
- The company's substantial international operations and shift of business focus to emerging markets subject it to a number of risks.
- The company may be subject to claims that it has infringed, misappropriated or otherwise violated the patent or other intellectual property rights of a third party. The outcome of any such claims is uncertain and any unfavorable result could adversely affect its business, financial condition and results of operations.
- The company's business could be adversely affected by seasonal trends and construction cycles.
- Fluctuations in exchange rates could have an adverse effect on the company's results of operations, even if it's underlying business results improve or remain steady.
- The company is a holding company with no business operations of its own and depends on its subsidiaries for cash.
- The company may undertake acquisitions, investments, joint ventures or other strategic alliances, which may have a material adverse effect on its ability to manage its business, and such undertakings may be unsuccessful.
- The company has received financial incentives from government bodies in certain foreign jurisdictions that are based on the maintenance of various requirements. If such requirements are not maintained, it may lose the financial incentives, which could negatively impact its results of operations and financial condition.
- Liabilities with respect to the company's divested QA business may have a significant effect on its financial condition.
- The company is subject to the Continued Listing Criteria of the NYSE and its failure to satisfy these criteria may result in delisting of its common stock.
- The company has implemented the standards required by Section 404 of the Sarbanes-Oxley Act of 2002 ("Section 404"), and failure to maintain effective internal control over financial reporting in accordance with Section 404 could have a material adverse effect on the company.



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- Some provisions of Delaware law and the company's certificate of incorporation and bylaws may deter third parties from acquiring the company, and diminish the value of its common stock.
- The company's certificate of incorporation contains a provision renouncing its interest and expectancy in certain corporate opportunities.

### SOURCES:

[www.finance.yahoo.com](http://www.finance.yahoo.com).

[pvmagazine.com](http://pvmagazine.com).

[http://www.sec.gov/cgi-bin/browse-](http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0001473597&owner=exclude&count=40&hidefilings=0)

[edgar?action=getcompany&CIK=0001473597&owner=exclude&count=40&hidefilings=0](http://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0001473597&owner=exclude&count=40&hidefilings=0)

[www.seekingalpha.com](http://www.seekingalpha.com).

[www.strsolar.com](http://www.strsolar.com).

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<sup>1</sup> [http://www.pv-magazine.com/news/details/beitrag/outlook-for-solar-industry-good-despite-current-troubles--according-to-analysts\\_100014689/#axzz3VMa9Btvk](http://www.pv-magazine.com/news/details/beitrag/outlook-for-solar-industry-good-despite-current-troubles--according-to-analysts_100014689/#axzz3VMa9Btvk).

<sup>2</sup> Ibid.

<sup>3</sup> [http://files.shareholder.com/downloads/AMDA-1MHH7L/4148081742x0x784613/5C948B22-DDA6-456A-AA06-6BDCE3F08226/October\\_Investor\\_Update.pdf](http://files.shareholder.com/downloads/AMDA-1MHH7L/4148081742x0x784613/5C948B22-DDA6-456A-AA06-6BDCE3F08226/October_Investor_Update.pdf).

<sup>4</sup> <http://www.sec.gov/Archives/edgar/data/1473597/000104746914002277/a2218855z10-k.htm>. Page 12.

<sup>5</sup> [http://files.shareholder.com/downloads/AMDA-1MHH7L/4148081742x0x784613/5C948B22-DDA6-456A-AA06-6BDCE3F08226/October\\_Investor\\_Update.pdf](http://files.shareholder.com/downloads/AMDA-1MHH7L/4148081742x0x784613/5C948B22-DDA6-456A-AA06-6BDCE3F08226/October_Investor_Update.pdf).

<sup>6</sup> <http://finance.yahoo.com/q?s=stri>

<sup>7</sup> [http://stockcharts.com/school/doku.php?st=fibonacci&id=chart\\_school:chart\\_analysis:fibonacci\\_fan](http://stockcharts.com/school/doku.php?st=fibonacci&id=chart_school:chart_analysis:fibonacci_fan).

<sup>8</sup> <https://www.tradingview.com/e/6BL8lIEi/>.

**Disclosure:** *I have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it, and I have no business relationship with any company whose stock is mentioned in the article.*

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This report may contain certain forward-looking statements and information, as defined within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and is subject to the Safe Harbor created by those sections. This material contains statements about expected future events and/or financial results that are forward-looking in nature and subject to risks and uncertainties. Such forward-looking statements by definition involve risks, uncertainties and other factors, which may cause the actual results, performance or achievements of mentioned company to be materially different from the statements made herein.

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