Zacks Small-Cap Research

May 11, 2015
Ann H. Heffron, CFA, CPA
312-265-9428
aheffron@zacks.com
scr.zacks.com
111 North Canal Street • Chicago, IL 60606

Chesapeake Financial Shares, Inc. (CPKF - OTCQB)

CPKF: Better-than-Expected First Quarter Propelled by Solid Growth in Loans and Net Revenue

Current Recommendation	**Hold**
Prior Recommendation	Buy
Date of Last Change	01/09/2014
Current Price (05/08/15)	$16.50
Twelve-Month Target Price	**$16.75**

OUTLOOK

CPKF's first quarter net earnings, excluding a net gain on the redemption of trust preferred securities, rose $0.6 million year over year, or 43%, to $1.9 million, while 2015's first quarter diluted EPS grew by $0.14, or 43%, to $0.46 from $0.32 posted a year ago. Including the gain on the retirement of the trust preferred securities (about $1.0 million pretax and an estimated $780,000 after tax, or an estimated $0.20 per diluted share), results were even better: net earnings rose 103% over first quarter 2014 to $2.6 million and diluted EPS rose 101% to $0.65. This was higher than our estimate, which had called for a $0.2 million increase in net earnings to $1.5 million (off by $0.4 million) and a $0.05 rise in diluted EPS to $0.37 (off by $0.09). The primary reason for the difference between reported results and our estimate was that net revenues were $0.5 million more than the $9.2 million we had anticipated, largely consisting of noninterest income that was $0.4 million higher than our projection, and net interest income that was $0.2 million greater than our estimate. Gross loans increased $19 million, or about 5%, year over year, and rose $10 million, or 2 ½%, sequentially to $402 million. Notably, CPKF was cited by SNL Financial as one of only 20 banks in the country (and 2 in Virginia) to increase dividends at least 2% per year and at least a cumulative 30% over the past five years. In August, CPKF announced that for the seventh consecutive year, Chesapeake Financial Shares, Inc. had made the American Banker magazine listing of the "Top 200 Community Banks" in the United States, ranking #28 out of 6,000 community banks. We are currently reviewing our estimates.

SUMMARY DATA

52-Week High	**$16.50**
52-Week Low	**$14.25**
One-Year Return (%)	**15.87**
Beta	**0.11**
Average Daily Volume (sh)	**947**
Shares Outstanding (mil)	**4**
Market Capitalization ($mil)	**$65**
Short Interest Ratio (days)	**N/A**
Institutional Ownership (%)	**0**
Insider Ownership (%)	**40**
Annual Cash Dividend	**$0.45**
Dividend Yield (%)	**2.73**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**3.3**
Earnings Per Share (%)	**5.7**
Dividend (%)	**9.1**
P/E using TTM EPS	**10.4**
P/E using 2015 Estimate	**11.0**
P/E using 2016 Estimate	**N/A**
Zacks Rank	**4**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Southeast**
Zacks Rank in Industry	**64 of 69**

ZACKS ESTIMATES

Net Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	9.0 A	9.4 A	10.1 A	9.6 A	38.1 A
2013	9.6 A	10.0 A	9.7 A	9.7 A	39.0 A
2014	9.0 A	9.7 A	9.3 A	9.7 A	37.7 A
2015	9.8 A	9.9 E	9.8 E	9.8 E	38.7 E

Earnings per Share*
(EPS is operating earnings before nonrecurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	0.47 A	0.52 A	0.62 A	0.33 A	1.94 A
2013	0.53 A	0.46 A	0.38 A	0.30 A	1.66 A
2014	0.32 A	0.48 A	0.23 A	0.41 A	1.43 A
2015	0.46 A	0.50 E	0.36 E	0.27 E	1.50 E

Quarterly EPS may not add to total due to changes in shares outstanding.
* Per share data have been adjusted for a 5-for-6 stock split, paid to shareholders in mid-October 2014.

© Copyright 2012, Zacks Investment Research. All Rights Reserved.

FIRST QUARTER

CPKF's first quarter net earnings, excluding a net gain on the redemption of trust preferred securities, rose $0.6 million year over year, or 43%, to $1.9 million, while 2015's first quarter diluted EPS grew by $0.14, or 43%, to $0.46 from $0.32 posted a year ago.

Including the gain on the retirement of the trust preferred securities (about $1.0 million pretax and an estimated $780,000 after tax, or an estimated $0.20 per diluted share), results were even better, more than doubling: net earnings rose103% over first quarter 2014 to $2.6 million and diluted EPS rose 101% to $0.65. (All per share data in this report have been adjusted for a 6-for-5 stock split, paid to shareholders in mid-October 2014.)

This was higher than our estimate, which had called for a $0.2 million increase in net earnings to $1.5 million (off by $0.4 million) and a $0.05 rise in diluted EPS to $0.37 (off by $0.09).

The primary reason for the difference between reported results and our estimate was that net revenues were $0.5 million more than the $9.2 million we had anticipated, largely consisting of noninterest income that was $0.4 million higher than our projection (as the net gain on securities was $0.2 million better than expected as was other miscellaneous income), and net interest income that was $0.2 million greater than our estimate.

On the other hand, total noninterest expense of $7.4 million was $0.1 million more than we had projected, primarily reflecting other miscellaneous expense that was $0.1 million more than anticipated.

The major reasons for the first quarter's $0.6 million gain in net earnings versus the prior-year quarter were a $0.3 million increase in net interest income, a $0.1 million, or 52%, drop in the provision for loan losses, and a $0.5 million , or 14%, advance in noninterest income from higher securities gains and other miscellaneous income, which were partly offset by a $0.2 million rise in total noninterest expense.

Net interest income rose $0.3 million, or 5%, year over year in the first quarter to $5.9 million ($0.2 million higher than our $5.7 million estimate), as an estimated 4% increase in average interest-earning assets was aided by a net interest margin that we estimate was slightly higher than the 4.46% earned in the year-ago quarter.

Noninterest income increased $0.5 million, or 14%, year over year to $3.9 million ($0.4 million greater than our $3.5 million projection), on the strength of higher net securities gains (up $0.3 million) and other miscellaneous income (up $0.2 million).

Noninterest expense inched up $0.2 million, or 2%, to $7.4 million ($0.1 million more than the $7.3 million we had projected) from the prior-year quarter, due to increased compensation and other miscellaneous expense, each up about $0.1 million.

The loan loss provision declined by $57,000 to $72,000 from $150,000 in the year-ago quarter and was the slighly higher than our $63,000 estimate. Loan loss reserves decreased $0.2 million from $6.4 million (1.63% of loans) at the end of the fourth quarter to $6.2 million (1.53% of loans) at March 31, 2015, and were below the $6.5 million (1.71% of loans) in the year-ago quarter.

As to other asset quality measures, CPKF recorded net charge-offs of $282,000 in the first quarter. This compares to a net recovery of $68,000 in the year-ago quarter and net charge-offs of $445,000 for the full year in 2014.

Gross loans increased $19 million, or about 5%, year over year, and rose $10 million, or 2 ½%, sequentially to $402 million.

CPKF posted a 10.4% ROE and 1.12% ROA for the first quarter of 2015, compared to 8.3% and 0.78%, respectively, in the prior-year quarter.

CPKF recently announced it will be opening a new branch for the first time in Richmond, Virginia in late summer 2015 as part of its long-term strategy emphasizing planned thoughtful expansion.The 7,500 square-foot, custom-built location will house all of CPKF's Richmond area associates, from loan production to banking.

In 2013, CPKF hiked its quarterly dividend by 13% to $0.1125 per share from $0.10 per share, following two dividend increases in 2012 totalling 20%. The total 2014 dividend payment of $0.45 represents a 6% rise over 2013's payment of $0.425. Notably, CPKF has increased the annual dividend payment every year for the past twenty-three years since 1991.

This feat was recently recognized by SNL Financial in a report that cited CPKF as one of only 20 banks in the country (and only two in Virginia) to increase dividends by at least 2% per year and at least a cumulative 30% over the past five years. The company recorded cumulative dividend growth of 51.1% over the 2008-2013 period.

On August 4, 2014, CPKF announced that for the seventh consecutive year, Chesapeake Financial Shares, Inc. had made the American Banker magazine (formerly US Banker magazine) listing of the "Top 200 Community Banks" in the United States. The bank ranked at #28 in the nation out of approximately 6,000 community banks in the study, up from #148, when CPKF first broke into the rankings in 2008. The ranking is based on a three-year average of return on average equity (ROAE), which for CPKF was14.07%.

We are currently reviewing our estimates and will issue a more comprehensive report when detailed financial information becomes available within the next few weeks.

OVERVIEW

Chesapeake Financial Shares, Inc. (CPKF or the Company) is a financial holding company headquartered in Kilmarnock, Virginia, with $663 million in total assets at March 31, 2015. CPKF is predominantly a small business lender with 12 branch offices that serve customers in the eastern region of Virginia between the Potomac and James Rivers. These offices are located in Kilmarnock, Lively, Irvington, Mathews, Hayes, and Gloucester, with five branches in Williamsburg. In addition, CPKF opened a commercial loan production office in Richmond, Virginia in 2011. CPKF, which began as Lancaster National Bank on April 13, 1900, has a long history and strong ties with the communities it serves.

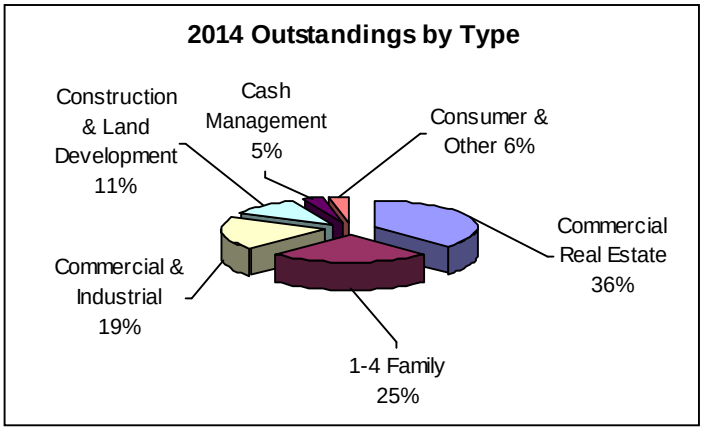
Operations are carried on through Chesapeake Bank, a state-chartered bank as well as Federal Reserve and FDIC member bank, and Chesapeake Investment Group, Inc. (CIG), an independent wealth management firm that manages about $356 million in assets (at 2014 yearend) through its subsidiaries involved in asset management (CIG is a registered investment adviser), brokerage, and trust services. Other activities of the Company include Chesapeake Payment Systems, Cash Flow program, Clear Sky accounts, and its secondary market mortgage banking operation.

Chesapeake Payment Systems offers merchant processing services such as credit card and debit card processing, electronic benefits transfers, and loyalty and gift card processing to companies involved in travel, entertainment, restaurant, hospitality, retail, mail order, and e-commerce. At yearend 2014, Chesapeake Payment Systems had 535 merchants in its system and processed over $129 million in merchant card transactions. In addition, Chesapeake Payment Systems has also partnered with three independent sales organizations (ISOs) to expand its processing footprint.

The Cash Flow program, which provides an attractive financing option to growing businesses, involves the purchase of the client company's accounts receivables. The Cash Flow program is currently offered in the Eastern half of the United States and had 77 customers at the end of 2014.

Clear Sky accounts, which offer internet-based retail deposit services for checking and saving accounts and certificates of deposit (CDs), expands CPKF's retail deposit base geographically. At December 31, 2014, Clear Sky deposits totalled $30 million, with customers in all 50 states.

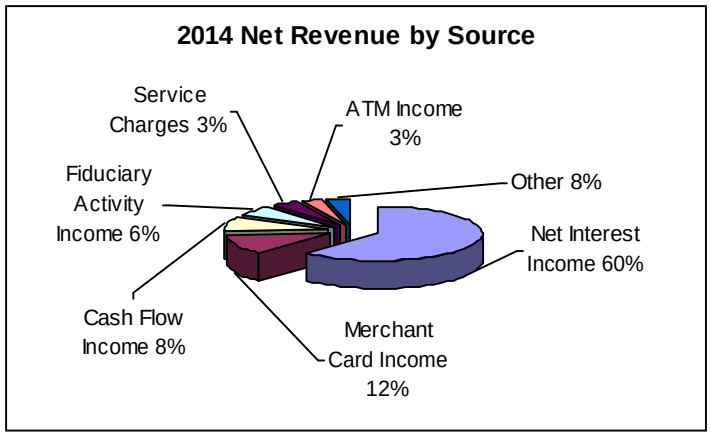
Through Chesapeake's secondary market mortgage banking operation, the Company services a $219 million loan portfolio (as of December 31, 2014) of residential mortgage loans for Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), for which it earns a 25 basis-point fee (approximately $560,000 annually) on the outstanding loan portfolio balance. Additionally, CPKF earns a pare-off fee for residential mortgage loans that are originated and closed with FHLMC, which added $272,000 to revenues in 2014 (both types of fees are included in other noninterest income in the Company's financial statements).



The lending portfolio is dominated by real estate loans, as shown in the chart at left. At December 31, 2014, the lending book consisted of commercial real estate (accounting for 36% of total gross outstandings), 1-4 family (25%), commercial and industrial (19%), construction and land development (11%), cash flow (5%), and consumer and other (6%). A majority of loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

At December 31, 2014, the liquidity portfolio, which consists of cash, short-term investments, federal funds sold, and US agency mortgage obligations, represented about 9% of total assets and 19% of the securities portfolio. In addition, the available-for-sale portfolio includes municipal and private label mortgage securities, which accounted for 64% and 17%, respectively, of the total. Core deposits represented 85% of total deposits at December 31, 2014, with certificates of deposit larger than $100,000 at 15%.

In 2014, net interest income contributed 60% of net revenue, with a significant 40% coming from noninterest income sources. Major contributors to noninterest income include merchant card income (12% of net revenues), cash flow income (8%), income from fiduciary activities (6%), service charges on deposit accounts (3%), and ATM income (3%).



VALUATION

CPKF stock is up 6.7% year to date, better than the 0.1% median loss for the small-cap bank industry, as well as the 2.8% price gain for the S&P 500, as shown in the following table.

At its current price, CPKF is trading at a premium to the industry median P/E of 9% in 2015, based upon our CPKF EPS estimate for 2015. This is above the average 30% P/E discount for CPKF, based upon recent historical P/E averages. Applying the historical discount of 30% to our 2015 EPS estimate results in a price of about $10.75.

Turning to Price/Tangible Book Value, CPKF is valued at 0.93X versus the industry median of 1.22X. This represents a 24% discount, well below the average historical premium of 18% for CPKF since mid-2008. Applying the historical premium of 18% to our estimated book value for CPKF twelve months out results in a price of approximately $22.75.

While we recognize that CPKF is still undervalued particularly on a book value basis, we believe that there is no immediate catalyst to drive the stock price higher over the near term.

Accordingly, we have chosen the $16.75 midpoint of the wide range of values based upon CPKF's 2015 P/E of $10.75 and Price/Tangible Book Value of $22.75 as our new target price.

Industry Comparables - Small-cap Banks

		Price / Earnings Ratios					Return on Equity		Return on Assets		
	Pr Chg YTD	TTM* EPS	2015E	2016E	5-Yr Avg	Price/ Book	TTM*	5-Yr Avg	TTM*	5-Yr Avg	Div Yld
Chesapeake Finc'l	**6.7**	**10.3**	**11.0**	**-----**	**8.3**	**0.93**	**21.4**	**14.9**	**2.19**	**1.26**	**2.7**
S&P 500	2.8	18.7	17.2	15.8	15.7	9.1	28.3	-----	8.9	-----	2.0
Median	**(0.1)**	**13.4**	**10.1**	**9.0**	**12.0**	**1.22**	**8.9**	**6.1**	**0.92**	**0.57**	**1.9**
Average	2.1	15.7	8.4	6.8	13.6	1.1	8.3	5.1	0.8	0.6	1.7
High	22.3	60.3	44.2	28.3	28.7	2.3	21.4	14.9	2.2	1.8	4.7
Low	(12.3)	-----	-----	-----	-----	0.7	(0.8)	(48.2)	(0.1)	(0.7)	-----

*Trailing twelve months

Chesapeake Financial Shares, Inc.

Income Statement and Balance Sheet

(Dollars in millions, except per share data)

Summary Financial Data	12/09	12/10	12/11	12/12	12/13	12/14	12/15E
Net interest income	18.9	21.8	22.8	23.1	23.3	23.1	23.4
Non-interest income	14.1	13.8	13.7	15.0	15.7	14.6	15.3
Total net revenue	33.0	35.6	36.5	38.1	39.0	37.7	38.7
Loan loss provision	0.9	2.5	1.2	0.6	1.1	0.6	0.3
Non-interest expense	25.9	26.2	26.4	27.8	29.8	30.5	30.9
Income taxes & other	1.4	1.5	1.9	2.0	1.5	0.8	1.5
Zacks adjusted income before NRI	4.8	5.4	7.0	7.7	6.6	5.8	6.0
GAAP net income	4.8	5.4	7.0	7.7	7.4	6.5	6.0
Diluted EPS before NRI	1.23	1.41	1.80	1.94	1.66	1.43	1.50
Reported EPS	1.23	1.41	1.80	1.94	1.84	1.62	1.50
Dividends per share	0.29	0.30	0.33	0.38	0.43	0.45	0.45
Liquid assets	57.8	73.2	97.9	92.1	89.9	62.8	63.8
Outstandings, gross	391.3	382.3	373.1	397.6	401.0	410.4	422.8
Total assets	586.7	607.7	638.0	667.7	661.8	663.2	690.1
Core deposits	370.0	396.2	430.4	459.0	467.2	480.5	500.0
Purchased funds	131.3	127.2	113.3	118.4	105.3	82.4	83.7
Long-term debt	47.4	40.0	39.6	26.0	25.9	20.6	20.0
Shareholders' equity	35.3	41.1	51.2	60.9	61.8	70.6	74.8
Profitability							
Return on avg assets	0.84%	0.90%	1.13%	1.19%	1.01%	0.87%	0.89%
Return on avg equity	13.14%	13.55%	15.31%	14.87%	10.74%	9.14%	8.28%
Net interest margin	4.10%	4.40%	4.70%	4.60%	4.60%	4.60%	4.40%
Loan loss provision % avg assets	0.16%	0.41%	0.19%	0.09%	0.17%	0.09%	0.04%
Noninterest income % avg assets	2.45%	2.30%	2.21%	2.33%	2.40%	2.20%	2.27%
Noninterest expense % avg assets	4.51%	4.34%	4.27%	4.32%	4.55%	4.61%	4.57%
Preprovision pretax income % avg assets	1.24%	1.57%	1.62%	1.60%	1.41%	1.09%	1.15%
Tangible efficiency ratio	77%	73%	71%	71%	75%	81%	80%
Payout ratio	24%	21%	18%	19%	23%	28%	30%
Asset Quality							
Net charge-offs % avg outstandings	0.34%	0.48%	0.22%	0.18%	0.29%	0.14%	0.19%
Allowance % outstandings	1.59%	1.90%	2.01%	1.88%	1.75%	1.88%	1.75%
NPAs % loans + OREO	1.20%	3.91%	4.48%	4.93%	5.20%	4.20%	3.76%
Allowance % NPAs	131%	48%	44%	32%	30%	37%	46%
Liquidity & Funding							
Liquid assets % purchased funds	44%	58%	86%	78%	85%	76%	76%
Core deposits % outstandings	95%	104%	115%	115%	117%	117%	118%
Liquid assets % assets	10%	12%	15%	14%	14%	9%	9%
Outstandings % assets	67%	63%	58%	60%	61%	62%	61%
Capital Adequacy							
Total equity % assets	6.01%	6.76%	8.03%	9.12%	9.34%	10.65%	10.84%
Tangible equity % assets	6.01%	6.76%	8.03%	9.12%	9.34%	10.65%	10.84%
Tier 1 capital ratio	10.10%	12.07%	12.20%	13.55%	14.23%	14.69%	
Total capital ratio	11.70%	13.54%	13.40%	14.80%	15.48%	15.94%	
Parent Company Statistics							
Interest coverage	0.8X	2.6X	2.1X	4.4X	9.2X	27.3X	7.5X
Interest & dividend coverage	0.4X	1.1X	0.9X	1.5X	1.5X	3.7X	1.4X
Short-term debt coverage	Lge	Lge	Lge	Lge	Lge	Lge	Lge
Total debt coverage	0.8X	0.8X	0.8X	0.9X	1.0X	0.9X	1.3X
Double leverage	142.1%	134.7%	127.2%	121.7%	119.7%	109.3%	111.2%

Chesapeake Financial Shares, Inc.

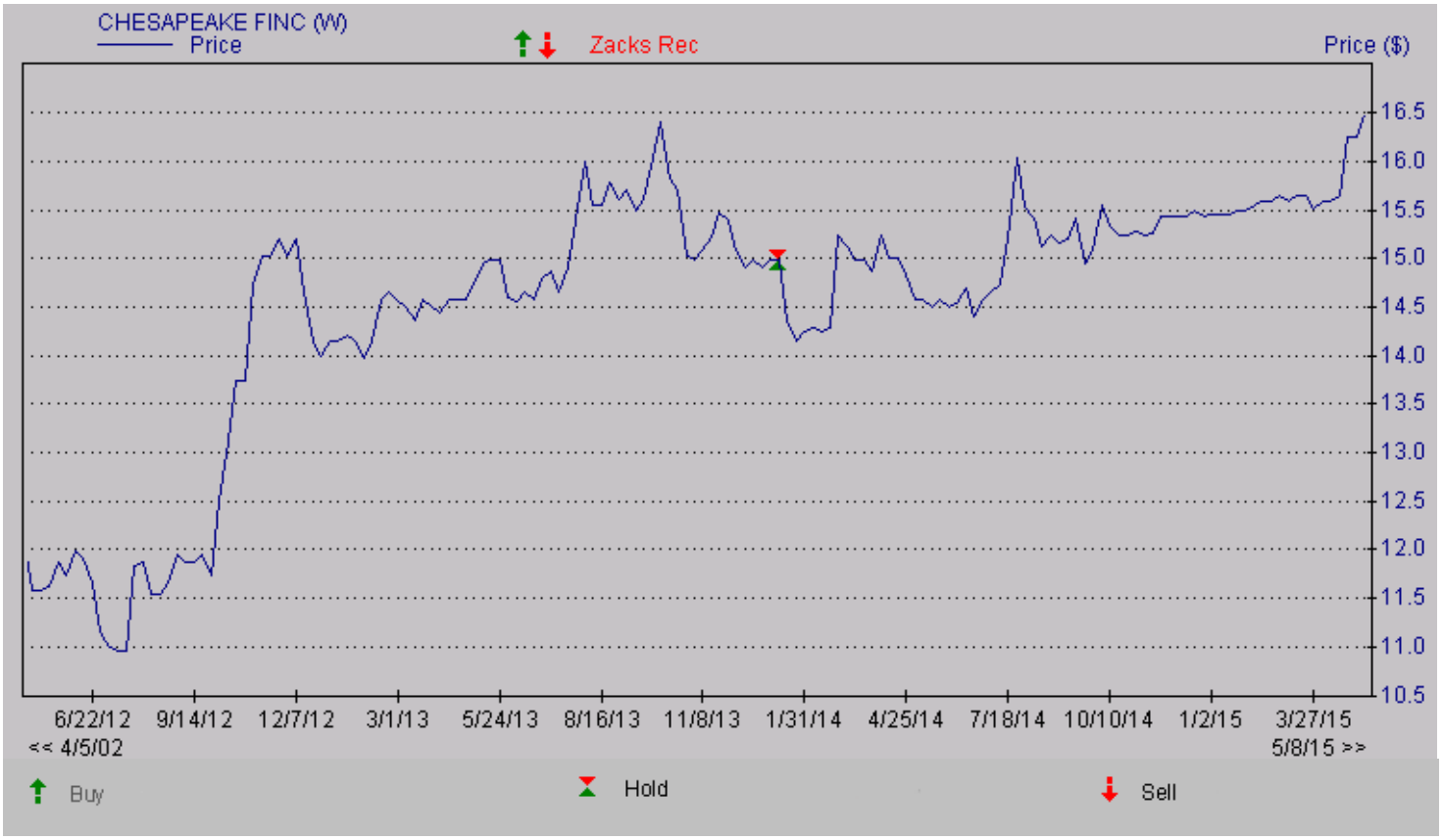
Income Statement and Balance Sheet

(Dollars in millions, except per share data)

	2014				2015			
Summary Financial Data	**Q1 A**	**Q2 A**	**Q3 A**	**Q4 A**	**Q1 P**	**Q2 E**	**Q3 E**	**Q4 E**
Net interest income	5.6	5.7	5.9	6.0	5.9	5.8	5.9	5.9
Non-interest income	3.4	4.0	3.4	3.7	3.9	4.1	3.9	3.9
Total net revenue	9.0	9.7	9.3	9.7	9.8	9.9	9.8	9.8
Loan loss provision	0.2	0.2	0.2	0.2	0.1	0.1	0.1	0.1
Non-interest expense	7.2	7.2	8.0	8.1	7.4	7.3	7.9	8.4
Income taxes & other	0.4	0.4	0.2	(0.2)	0.4	0.5	0.3	0.2
Zacks adjusted income before NRI	1.3	1.9	0.9	1.6	1.9	2.0	1.5	1.1
GAAP net income	1.3	1.9	1.7	1.6	2.6	2.0	1.5	1.1
Diluted EPS before NRI	0.32	0.48	0.23	0.41	0.46	0.50	0.36	0.27
Reported EPS	0.32	0.48	0.42	0.41	0.66	0.50	0.36	0.27
Dividends per share	0.11	0.11	0.11	0.11	0.11	0.11	0.11	0.11
Liquid assets	90.1	70.1	63.2	62.8	63.1	63.3	63.6	63.8
Outstandings, gross	404.7	400.6	409.4	410.4	413.4	416.5	419.7	422.8
Total assets	669.2	655.0	658.0	663.2	669.8	676.5	683.3	690.1
Core deposits	480.4	462.5	477.4	480.5	485.3	490.1	495.0	500.0
Purchased funds	95.2	93.1	84.0	82.4	82.7	83.1	83.4	83.7
Long-term debt	26.0	25.9	20.7	20.6	20.0	20.0	20.0	20.0
Shareholders' equity	64.5	67.0	68.9	70.6	72.8	74.4	75.4	76.0
Profitability								
Return on avg assets*	0.78%	1.15%	0.55%	0.99%	1.12%	1.19%	0.86%	0.62%
Return on avg equity *	8.26%	11.56%	5.35%	9.40%	10.40%	10.92%	7.84%	5.64%
Net interest margin*	4.46%	4.48%	4.55%	4.60%		4.40%	4.40%	4.40%
Loan loss provision % avg assets*	0.09%	0.09%	0.09%	0.09%	0.04%	0.04%	0.04%	0.04%
Noninterest income % avg assets*	2.06%	2.39%	2.09%	2.28%	2.35%	2.42%	2.30%	2.24%
Noninterest expense % avg assets*	4.32%	4.35%	4.85%	4.93%	4.42%	4.35%	4.64%	4.89%
Preprovision pretax inc.% avg assets*	1.10%	1.47%	0.82%	0.97%	1.45%	1.53%	1.12%	0.81%
Tangible efficiency ratio	80%	74%	85%	84%	77%	74%	80%	85%
Payout ratio	35%	23%	27%	28%	17%	23%	31%	42%
Asset Quality								
Net charge-offs % avg outstandings*	(0.07)%	0.24%	0.05%	0.32%		0.14%	0.14%	0.14%
Allowance % outstandings	1.83%	1.87%	1.89%	1.88%		1.84%	1.82%	1.80%
NPAs % loans + OREO	5.09%	4.50%	3.90%	4.20%		3.99%	3.88%	3.76%
Allowance % NPAs	31%	35%	41%	37%		46%	47%	48%
Liquidity & Funding								
Liquid assets % purchased funds	95%	75%	75%	76%	76%	76%	76%	76%
Core deposits % outstandings	119%	115%	117%	117%	117%	118%	118%	118%
Liquid assets % assets	13%	11%	10%	9%	9%	9%	9%	9%
Outstandings % assets	60%	61%	62%	62%	62%	62%	61%	61%
Capital Adequacy								
Total equity % assets	9.64%	10.23%	10.47%	10.65%	10.87%	10.99%	11.03%	11.01%
Tangible equity % assets	9.64%	10.23%	10.47%	10.65%	10.87%	10.99%	11.03%	11.01%
Tier 1 capital ratio	14.41%	14.84%	14.22%	14.69%				
Total capital ratio	15.66%	16.09%	15.47%	15.94%				

*Annualized.

HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Ann H. Heffron, CFA, CPA, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESMENT BANKING, REFERRALS, AND FEES FOR SERVICE

Zacks SCR does not provide nor has received compensation for investment banking services on the securities covered in this report. Zacks SCR does not expect to receive compensation for investment banking services on the Small-Cap Universe. Zacks SCR may seek to provide referrals for a fee to investment banks. Zacks & Co., a separate legal entity from ZIR, is, among others, one of these investment banks. Referrals may include securities and issuers noted in this report. Zacks & Co. may have paid referral fees to Zacks SCR related to some of the securities and issuers noted in this report. From time to time, Zacks SCR pays investment banks, including Zacks & Co., a referral fee for research coverage.

Zacks SCR has received compensation for non-investment banking services on the Small-Cap Universe, and expects to receive additional compensation for non-investment banking services on the Small-Cap Universe, paid by issuers of securities covered by Zacks SCR Analysts. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, equity research, investment management, non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per client basis and are subject to the number of services contracted. Fees typically range between ten thousand and fifty thousand USD per annum.

POLICY DISCLOSURES

Zacks SCR Analysts are restricted from holding or trading securities placed on the ZIR, SCR, or Zacks & Co. restricted list, which may include issuers in the Small-Cap Universe. ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Each Zacks SCR Analyst has full discretion on the rating and price target based on his or her own due diligence. Analysts are paid in part based on

the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for services described above. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but are not guaranteed as to be accurate nor do we purport to be complete. Because of individual objectives, this report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

ZACKS RATING & RECOMMENDATION

ZIR uses the following rating system for the 1113 companies whose securities it covers, including securities covered by Zacks SCR:
Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 25.7%, Hold/Neutral- 57.1%, Sell/Underperform – 15.0%. Data is as of midnight on the business day immediately prior to this publication.