

Zacks Small-Cap Research

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Finjan Holdings

(FNJN-NASDAQ)

FNJN: Finjan Reports Q1 Revenues of \$65M From the Symantec Settlement

Based on the average EV to Sales of comparable companies in the IP business of 2.0x we believe FNJN common stock could be worth \$8.33 per share.

OUTLOOK

With \$66 million in cash and no debt, Finjan is positioned to grow not only by pursuing IP licensing, but also by penetrating cybersecurity consulting services, mobile services, and investing in new IP via purchase, R&D, and cybersecurity startups. The company just settled with Symantec and its subsidiary Blue Coat, and we now expect other companies to follow. Finjan also recently purchase a group of cybersecurity patents from IBM that it has just begun to monetize.

Current Price (04/09/18) \$2.91
Valuation \$8.33

SUMMARY DATA

52-Week High \$3.80
52-Week Low \$1.72
One-Year Return (%) 60.8
Beta -0.7
Average Daily Volume (share) 622,821

Shares Outstanding (mil) 28
Market Capitalization (\$mil) \$81
Short Interest Ratio (days) 1
Institutional Ownership (%) 36
Insider Ownership (%) 10

Annual Cash Dividend \$0.00
Dividend Yield (%) 0.00

5-Yr. Historical Growth Rates
Sales (%) N/A
Earnings Per Share (%) N/A
Dividend (%) N/A

P/E using TTM EPS 6.3
P/E using 2018 Estimate 1.9
P/E using 2019 Estimate 2.2

Zacks Rank N/A

Risk Level High
Type of Stock Small-Blend
Industry Internet-Software

ZACKS ESTIMATES

Revenue

(in millions of \$)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	2.3 A	6.5 A	1.1 A	8.4 A	18.4 A
2017	24.7 A	2.3 A	0.0 A	23.4 A	50.0 A
2018	65.0 A	3.0 E	5.0 E	9.0 E	82.5 E
2019					67.5 E

EPS (GAAP)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	-\$0.05 A	-\$0.20 A	-\$0.20 A	\$0.17 A	-\$0.28 A
2017	\$0.69 A	-\$0.29 A	-\$0.16 A	\$1.14 A	\$0.68 A
2018	\$1.55 E	-\$0.10 E	-\$0.03 E	\$0.10 E	\$1.52 E
2019					\$1.17 E

Zacks Projected EPS Growth Rate - Next 5 Years % N/A

WHAT'S NEW

Finjan reported its first quarter of 2018 revenues consisted of booking \$65 million-- all from its settlement with Symantec. This compares with \$24.7 million booked in the Q1 2017 quarter. Finjan received the \$65 million payment due from Symantec on March 19, 2018. Subsequently, the company retired the remaining balance of its Series A-1 Preferred Stock from its 2017 \$15.3 million Series A-1 Preferred Stock. After having paid the lawyers on the Symantec and Blue Coat cases, the company now has \$66 million in cash, no debt and no preferred. It believes that gives it a runway of two to three years of cash on hand to support current operations not including any additional revenues. This first quarter payment resulted in operating income of \$42.9 million versus \$16.3 million a year ago.

Yesterday Finjan announced it had settled its lawsuit against Carbon Black that was filed on March 21, 2018 in the U.S. Northern District of California. Finjan alleged that Carbon Black's products and services infringe at least four U.S. Finjan patents: 6,804,780; 6,154,844; 8,677,494; and 8,141,154. Finjan sought, among other things, a jury trial, a judgment of infringement by Carbon Black, a preliminary and permanent injunction for infringement the '154 Patent, past damages not less than a reasonable royalty, enhanced damages for willful infringement, and reasonable attorneys' fees and costs for infringement of each of the asserted patents. In return for a license for its products, Carbon Black agreed to pay Finjan \$3.9 million in three installments of \$1.3 million to be received in Finjan Q2, Q3, and Q4 quarters. In addition, upon acquisition of Carbon Black or acquisitions by Carbon Black, additional one-time license fees will be due to Finjan equal to eight percent of the gross revenues of certain qualifying products and services for the four concluded quarters immediately preceding the acquisition.

Updating Forecasts

For 2018 we are conservatively expecting the company to book \$17 million in licenses from various companies which includes the already negotiated \$3.9 million to be received from Carbon Black. During the earnings call management told investors to expect it would spend less than previously thought in 2018. It reduced its operating expense level estimate to \$5-\$6 million per quarter due to the reduced level of litigation required since the settlement with Symantec and Blue Coat. Based on that, we are raising our EPS estimate for 2018 to \$1.52 per share.

In 2019 we are assuming that SYMC will buy a company that will trigger the \$45 million to Finjan. In addition it will be due \$2.5 million from Sophos and we estimate it could garner another \$20 million in various license fees, settlements or judgments. This could result in the company earning \$1.17 per share.

KEY POINTS

- Finjan holds a number of pioneering patents for cybersecurity hardware and software that is relevant to dozens of companies in this space. It recently bought more cybersecurity patents from IBM it just started to monetize.
- It just settled its extensive litigation with Symantec and Blue Coat and we expect other companies to now follow.
- The company is continuing to file new patents and create new cybersecurity products.

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- While its patents have already generated > \$350M in licensing, the company has the potential to continue to reap large licensing revenues from the \$21 billion market for cybersecurity software, services and appliance market.
 - The technology licensing market in the U.S., once an afterthought, has grown [from \\$33 billion in 1994 to \\$68 billion in 2002](#) and is likely over \$100 billion today.
 - The company's has a market cap of \$81 million and a current **enterprise value of \$15 million**. Estimating revenues of \$82.5 million in 2018 and an industry multiple of 2.0 times sales, the company could be worth as much as \$165 million in enterprise value or \$231 million market cap. This equates to \$8.33 per share.

OVERVIEW

Finjan Holdings is a patent licensing and enforcement firm based in East Palo Alto, California that owns the patents of its predecessor company Finjan Inc., a cybersecurity company that was founded in Israel in 1997. It invented several technologies that are used in current cybersecurity products today. Its three main patent areas:

- Behavior-based methods to detect and prevent threats from the Internet, including email and Web malware
- “Sandboxing” or stripping applications and running potentially malicious code in a safe environment
- Mobile code replacement where the malicious code is stripped and replaced by safe code

In addition the company recently bought the rights to a number of cybersecurity patents from IBM. It has not yet begun to monetize these patents.

RISKS

- All of the revenues booked to date are one-time and not recurring. It will be more difficult to book revenues as more and more companies are no longer targets.
- There is no way to predict the timing of lawsuit settlements or licensing agreements, or even the length or cost of a lawsuit.
- The stock is high risk and is expected to have wide swings in stock price depending on unpredictable events.
- The US government could to legislate new laws on patent enforcement that could affect the company's ability to monetize its patents as it currently expects.

THE PRESENT COMPANY ENFORCEMENT

Company	Date and Location	Status	Patent numbers
Palo Alto Networks (\$1.4 billion)	United States District Court for the Northern District of California on November 4, 2014.	Awaiting review by PTAB. Waiting for stay to be lifted.	6,804,780 ; 6,965,968; 7,058,822 ; 7,418,731 ; 7,613,918; 7,613,926 ; 7,647,633 ; 8,141,154 ; 8,225,408; and 8,677,494
ESET	United States District Court for the Northern District of California on July 1, 2016 German District Court in Dusseldorf	Suing for minimum of \$44 million. Markman Sept. 24, 2017 Trial no later than Dec 2018. Nullity Action with Blue Coat Nov 21, 2018.	6,154,844 ; 6,804,780 ; 7,975,305; 8,079,086; 9,189,621; and 9,219,755. European Patent No. EP 0965094
Cisco (\$49 billion)	United States District Court for the Northern District of California on January 6, 2017	Initiated January 6, 2017. Markman scheduled June 15, 2018. Trial date June 1, 2020	6,154,844 ; 6,804,780 ; 7,647,633 ; 8,141,154 ; and 8,677,494
SonicWall (\$1.4 billion)	United States District Court for the Northern District of California on August 4, 2017	Initiated August 4, 2017. Markman scheduled Oct 12, 2018	6,154,844 ; 6,804,780 ; 6,965,968 ; 7,058,822 ; 7,613,926 ; 7,647,633 ; 7,975,305 ; 8,141,154 ; 8,225,408 ; 8,677,494 .
Bitdefender	United States District Court for the Northern District of California on August 16, 2017	Initiated August 16, 2017.	6,804,780 ; 7,930,299 ; 8,141,154 ; and 8,677,494
Juniper Networks (\$5 billion)	United States District Court for the Northern District of California on September 29, 2017	Initiated September 29, 2017. Mini-trial June 26, 2018	6,154,844 ; 6,804,780 ; 7,613,926 ; 7,647,633 ; 7,975,305 ; 8,141,154 ; 8,225,408 ; 8,677,494 .
Zscaler (\$250 million est.)	United States District Court for the Northern District of California on December 5, 2017	Initiated December 5, 2017.	6,804,780 ; 7,647,633 ; 7,975,305 ; 8,677,494

Highlighted patent numbers have been successfully defended in court.

VALUATION

Q4 2017 and Q1 2018 were very successful for Finjan and as a result it has a cash hoard of \$66 million, no debt and no preferred stock outstanding. A market value of \$81 million then equates to a current enterprise value of \$15 million. At the end of March, the company had \$2.90 per share in cash, which is its current stock price.

Valuing an IP company, even with a track record, is very difficult. We look at other IP companies to see how the market values them to make some comparisons. There seems to be two different types of companies in this space, the older stable revenue generating companies like Rambus (RMBS), and the upstarts that trade on events and potential. We can see from the table below, this ranges from Pendrill (PCO) with -\$35 million enterprise value, to Interdigital (IDCC) with an enterprise value of \$1.6 billion and

\$282 million in sales expected this year. On average, the companies with revenues trade at an average of 2.0X 2018 estimated calendar revenues.

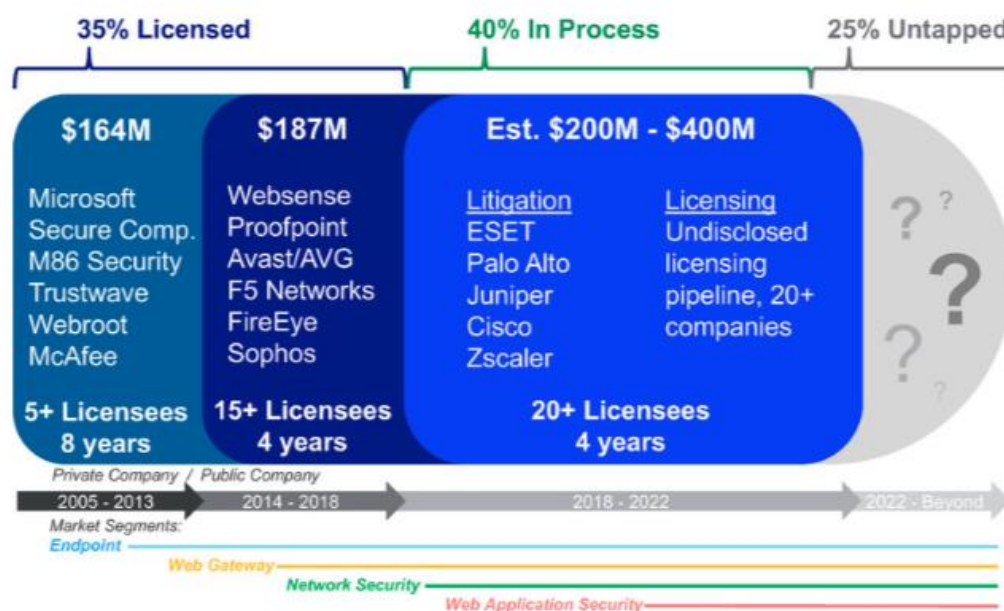
Using a valuation based on enterprise value to sales is easier for unprofitable companies. Based on \$82.5 million in sales in 2018, and the 2.0 times industry average sales multiple the stock should be worth \$231 million or \$8.33 per share if we add \$66 million in cash to the enterprise value to get market value.

Company	Ticker	Revenue		EV/	EBIDTA	Enterprise Value / Sales		Included in Average?	Enterprise Value
		2018E	LTM	EBITDA		2018E	LTM		
Acacia Research	ACTG	\$67	\$65	-25.7x	-2%	0.6x	0.6x	y	\$41
Interdigital	IDCC	\$282	\$533	4.7x	67%	6.0x	3.2x	y	\$1,680
Inventery Global	INVT	NA	\$1	-0.6x	-191%	NA	1.1x	n	\$1
Marathon	MARA	\$33	\$1	-3.0x	-1266%	0.9x	37.4x	y	\$29
Neonode	NEON	\$12	\$10	-4.9x	-44%	1.9x	2.1x	y	\$22
Network-1	NTIP	NA	\$19	0.4x	126%	NA	0.5x	n	\$11
Parkervision	PRKR	\$43	\$0	-1.0x	-17200%	0.4x	176.7x	y	\$18
Pendrell	PCOA	NA	\$43	-1.1x	71%	NA	-0.8x	n	-\$34
Rambus	RMBS	\$399	\$393	12.8x	8%	3.5x	3.6x	y	\$1,400
RPX	RPXC	\$278	\$330	1.9x	62%	1.4x	1.2x	y	\$389
VirnetX	VHC	NA	\$2	-13.6x	-858%	NA	152.0x	n	\$236
Quarterhill	QTRH	\$106	\$135	1.7x	45%	1.0x	0.8x	y	\$102
Average				-1.7x	-2291%	2.0x	28.2x		\$460

The company believes that although the percent of the market left to be captured declines, the market continues to grow at a rapid pace and potential revenues may not be shrinking. In other words, its TAM as a percent may be smaller, but the dollars involved are the same or increasing as the cybersecurity market grows.

Marquee List of Licensees

20+ Licensees, >\$350M in Contracted Licensing Fees, Accelerating Program



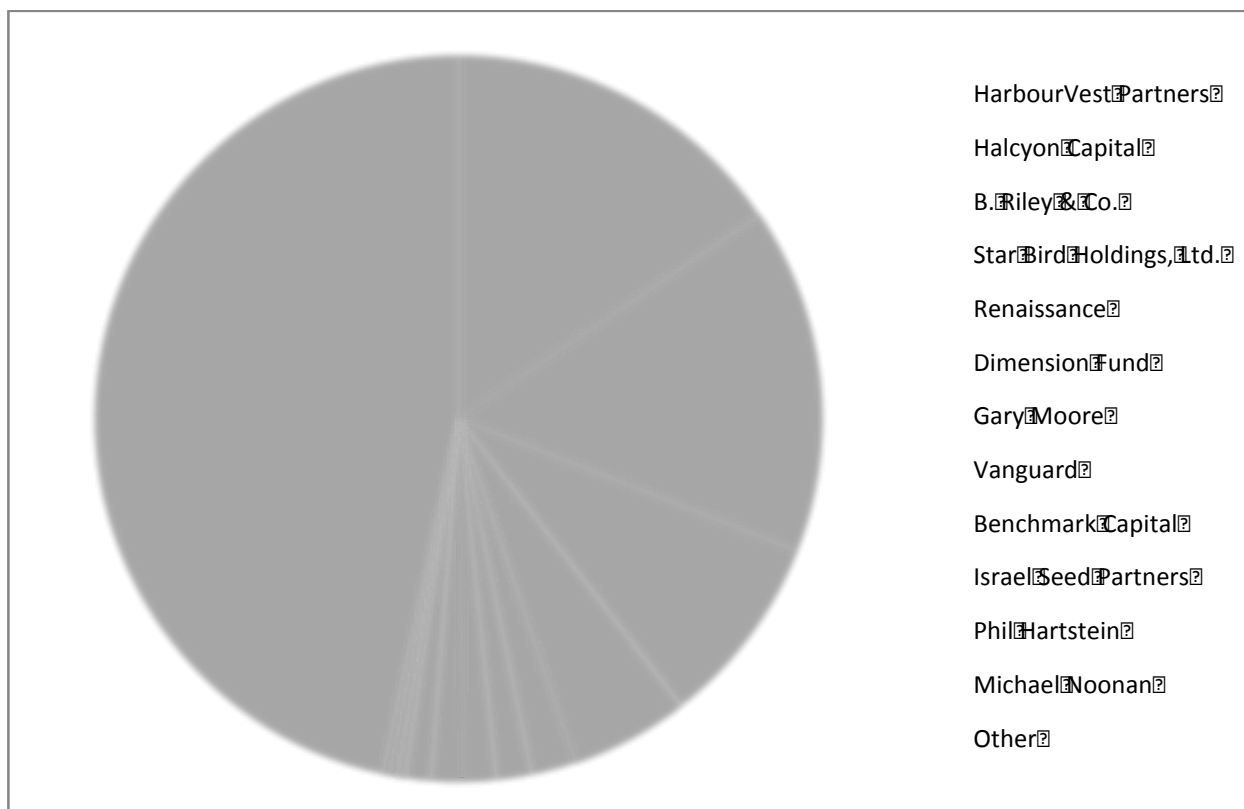
Notes: Select list of licensees and defendants, IDC for market segmentations, company estimates

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Currently Finjan's biggest revenue potential comes from Cisco and Palo Alto Networks due to their size. In addition, since Cisco was a shareholder and an insider the company is confident that the court would apply willfulness on any judgment increasing the pay out significantly.

OWNERSHIP

Cisco, Benchmark and Israel Seed have all been sellers of the stock. As of today, we believe Cisco has no stock, and Benchmark and Israel Seed has less than 500,000 shares remaining.



INCOME STATEMENT

In Thousands	2017				2018E				2016	2017	2018E	2019E
	Q1	Q2	Q3	Q4	Q1	Q2E	Q3E	Q4E				
Websense	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$3,000	\$0	\$0	\$0
Other licenses	9,745	2,300	0	1,328	0	1,700	3,700	7,700	7,478	\$13,373	13,100	20,000
Carbon Black	0	0	0	0	0	1,300	1,300	1,300	0	0	3,900	0
CybeRisk Security Solutions	2	9	0	50	0	0	0	0	309	\$61	500	0
FireEye	0	0	0	17,500	0	0	0	0	0	17,500	0	0
SYMC/Blue Coat	0	0	0	0	65,000	0	0	0	0	0	65,000	45,000
Proofpoint	0	0	0	3,300	0	0	0	0	7,600	0	0	0
Sophos	15,000	0	0	1,250	0	0	0	0	0	15,000	0	2,500
Total Revenues	24,747	2,309	0	23,428	65,000	3,000	5,000	9,000	18,387	50,484	82,500	67,500
Cost of revenues	3,783	225	0	2,000	13,000	170	370	770	3,037	6,008	14,310	11,250
Gross profit	20,964	2,084	0	21,428	52,000	2,830	4,630	8,230	15,350	44,476	68,190	56,250
Gross Margin	85%	90%	100%	91%	80%	94%	93%	91%	83%	88%	83%	83%
Operating Expenses:												
SG&A	4,537	4,635	5,112	13,662	8,425	4,800	4,800	4,800	14,430	27,946	22,825	19,200
R&D	153	334	330	656	350	350	400	500	570	1,473	1,600	2,000
Avira license fee	0	0	325	325	325	325	325	325	0	650	1,300	1,300
Total operating expenses	4,690	4,969	5,767	14,643	9,100	5,475	5,525	5,625	15,000	30,069	25,725	22,500
Operating Income	16,274	(2,885)	(5,767)	26,128	42,900	(2,645)	(895)	2,930	350	14,407	42,465	33,750
Other Income												
Change in fair val of warrant liab	0	0	1,530	687	0	0	0	0	0	2,217	0	0
Gain on settlements	0	0	0	0	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	0	0	0	0	0
Interest income	0	0	0	27	0	0	0	0	1	27	0	0
Total other income	0	0	1,530	714	0	0	0	0	1	2,244	0	0
Pretax profit	16,274	(2,885)	(4,237)	26,155	42,900	(2,645)	(895)	2,930	351	16,651	42,465	33,750
Income taxes	324	(56)	0	(6,428)	-	-	-	-	0	(6,160)	0	1,013
Tax rate	2%	0%	0%	0%	0%	0%	0%	0%	0%	-37%	0%	3%
Net Income	15,950	(2,829)	(4,237)	32,583	42,900	(2,645)	(895)	2,930	351	22,811	42,465	32,738
Accretion of Preferred Stock	-	(3,925)	-	(957)	-	-	-	-	(6,789)	(4,882)	-	-
Net inc. to common shareholders	15,950	(6,754)	(4,237)	31,626	42,900	(2,645)	(895)	2,930	(6,438)	17,929	42,465	32,738
Net Income Per Share:												
EPS	\$0.69	(\$0.29)	(\$0.16)	\$1.14	\$1.55	(\$0.10)	(\$0.03)	\$0.10	(\$0.28)	\$0.71	\$1.52	\$1.17
Diluted EPS	\$0.69	(\$0.29)	(\$0.16)	\$1.14	\$1.55	(\$0.10)	(\$0.03)	\$0.10	(\$0.28)	\$0.68	\$1.52	\$1.17
Avg Shares Outstanding	23,133	23,257	27,328	27,707	27,715	27,725	27,825	27,925	22,837	25,354	27,798	28,000
Diluted Shares	23,217	23,257	27,328	27,707	27,715	28,000	28,000	28,000	22,920	26,270	27,929	28,000
Stock-based Comp	209	210	222	202	NA	142	142	142	872	843	850	850
Adj Non-GAAP Income	16,159	(6,544)	(5,545)	6,284	NA	(2,503)	(753)	3,072	(5,566)	10,354	43,315	33,588
Non-GAAP EPS	\$0.70	(\$0.28)	(\$0.20)	\$0.23	NA	(\$0.09)	(\$0.03)	\$0.11	(\$0.24)	\$0.39	\$1.55	\$1.20

BALANCE SHEET

Although the company has not yet released its March 31, 2018 balance sheet, management stated that at quarter end the company had \$80.4 million of cash after having received the Symantec \$65 million and retiring all the preferred stock for \$19.9 million. Since the March quarter ended, it also paid \$13 million due to lawyers on the Symantec litigation team and will receive \$1.3 million from Carbon Black this week. As a result, the company currently has approximately \$66 million, or \$2.40 per share in cash and no debt.

\$ in Thousands	Dec 31, 2017	Sept 30, 2017	Qtr-Qtr % Change	Dec. 31, 2016	Yr-Yr % Change
Current assets:					
Cash and cash equivalents	\$41,169	\$45,895	-10%	\$13,678	201%
Accounts receivable, net	2,606	0	NM	1,066	144%
Prepaid expenses and other current assets	765	543	41%	292	162%
Total current assets	44,540	46,438	-4%	15,036	196%
Property and equipment, net	140	167	-16%	203	-31%
Investments	2,618	2,618	0%	2,745	-5%
Intangible assets, net	7,748	8,279	-6%	0	NM
Other long term assets	0	322	-100%	321	-100%
Deferred income taxes, non-current	6,201				
Total Assets	61,247	57,824	6%	18,305	235%
Current Liabilities:					
Accounts payable	4,646	2,831	64%	1,858	150%
Accounts payable - related parties	112	13	762%	88	27%
Accrued expenses	1,303	504	159%	1,832	-29%
Accrued income taxes	13	241	-95%	3	333%
Warrant liability	1,096	1,783	-39%	0	NM
Other current liabilities	1,086	1,000	9%	33	3191%
Total current liabilities	8,256	6,372	30%	3,814	116%
Other non-current liabilities	0	91	-100%	119	-100%
Other liabilities, non-current - patent	5,500	5,500	0%	0	NM
Total Liabilities	13,756	11,963	15%	3,933	250%
Series A Preferred Stock	0	0	0%	13,486	-100%
Series A-1 Preferred Stock	18,965	18,009	5%	0	NM
Stockholders' Equity					
Common stock	3	3	0%	2	50%
Additional paid-in capital	22,968	23,722	-3%	18,140	27%
Retained earnings	5,555	(8,373)	-166%	(17,256)	-132%
Total Stockholders' Equity	28,526	15,352	86%	886	3120%
Total Liabilities & Stockholders' Equity	\$61,247	\$57,824	6%	\$18,305	235%
Cash per share	\$1.37	\$1.98	-31%	\$0.60	128%
Working Capital	\$36,284	\$40,066	-9%	\$11,222	223%
Quick ratio	5.4	7.3	-26%	3.9	37%
Debt/TA	31%	31%	-1%	74%	-58%

CASH FLOW

	2017 Year	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	Mar. 31, 2017	2016 Year	Dec. 31, 2016	Sept. 30, 2016	Jun. 30, 2016	Mar. 31, 2016	2015 Year
Cash flows from operating activities:											
Net income	\$ 22,811	\$ 13,928	\$ (4,237)	\$ (2,830)	\$ 15,950	\$ 350	\$ 3,916	\$ (3,302)	\$ 899	\$ (1,163)	\$ (12,602)
Adjustments to reconcile net loss to net cash used in operating activities:											
Gain on Investment	0	0	0	0	0	0	0	0	0	0	(1,271)
Depreciation and amortization	815	558	232	13	12	63	(40)	15	13	14	50
Change in fair value of warrant liability	(2,217)	(687)	(1,530)	0	0	0	0	0	0	0	0
Deferred income taxes	(6,201)	(6,201)	0	0	0	0	0	0	0	0	0
Loss on disposal of assets	0	0	0	0	0	0	0	0	0	0	34
Stock-based compensation	843	202	222	210	209	872	(764)	229	311	142	766
Changes in operating assets and liabilities:											
Accounts receivable	(1,540)	(2,606)	9	(7)	1,064	(1,066)	0	0	0	0	2,016
Inventories	0	0	0	0	0	0	0	0	0	0	0
Prepaid expenses and other current assets	(152)	100	(132)	(128)	8	30	(228)	4	95	38	(210)
Other long-term assets	0	0	1	(1)	0	4	(2)	(1)	1	0	(325)
Accrued expenses	(529)	799	137	(682)	(783)	1,382	(5,030)	(665)	2,517	(4)	(350)
Accounts payable	2,788	1,815	(727)	(1,445)	3,145	(362)	2,009	936	(985)	(39)	545
Accounts payable - related parties	24	99	(12)	2	(65)	71	2	(5)	(3)	4	(83)
Other assets	0	0	0	0	0	0	0	0	0	0	162
Other liabilities	(66)	(5)	(46)	(2)	(13)	(10)	25	(10)	3	(31)	0
Accrued income taxes	10	(228)	0	(86)	324	(6)	0	0	0	0	9
Total Adjustments	535	(26)	(770)	(2,349)	3,680	43	(3,224)	259	1,628	(32)	1,764
Net cash used in operating activities	16,586	7,774	(6,083)	(4,956)	19,851	1,328	(112)	(2,799)	2,851	(1,039)	1,343
Cash flows from investing activities:											
Purchase of intangible assets	(2,000)	0	(2,000)	0	0	0	0	0	0	0	0
Purchases of property and equipment	0	0	0	0	0	(9)	0	(9)	0	0	(275)
Proceeds from investment	127	0	0	0	127	0	0	0	0	0	826
Purchase of additional investment	0	0	0	0	0	(550)	500	(300)	(250)	0	(750)
Net cash provided by (used in) investing activities	(1,873)	0	(2,000)	0	127	(559)	500	(309)	(250)	0	(199)
Cash flows from financing activities:											
Proceeds from common share offering	11,952	1	1,566	10,385	0	0	0	0	0	0	0
Proceeds for sale of Preferred A-1, net	14,375	0	0	14,375	0	0	0	0	0	0	0
Proceeds for sale of Preferred A, net	0	0	0	0	0	9,490	(18,980)	0	9,490	0	0
Redemption Series A Preferred shares	(13,778)	(1)	0	(6,555)	(7,222)	(2,793)	0	(2,593)	0	0	0
Proceeds from exercise of stock options	229	0	28	201	0	111	(152)	35	76	0	54
Net cash provided by financing activities	12,778	0	1,594	18,406	(7,222)	6,808	(19,132)	(2,558)	9,566	0	54
Net decrease in cash and cash equivalents	27,491	7,774	(6,489)	13,450	12,756	7,577	(18,744)	(5,666)	12,167	(1,039)	1,198
Cash and cash equivalents - beginning	13,678	33,395	39,884	17,229	(13,678)	6,101	11,563	17,229	5,062	6,101	4,903
Cash and cash equivalents - ending	41,169	41,169	33,395	39,884	17,229	13,678	13,678	11,563	17,229	5,062	6,101
Cash paid for income taxes	30	30	0	0	0	0	7	0	0	0	7
Non-cash investing and financing activities:											
Additional investment held by investee	0	0	0	0	0	0	0	0	0	0	445
Accretion of preferred stock to redemption value	4,882	957	3,925	0	0	6,789	(10,960)	1,309	5,480	0	0
Series A-1 warrant liability	3,313	0	3,313	0	0	0	0	0	0	0	0
Purchase of property and equipment in exchange for finance agreement	6,500	6,500	0	0	0	0	0	0	0	0	0
Operating cash Flow	24,469	14,688	(3,783)	(2,607)	16,171	1,285	3,112	(3,058)	1,223	(1,007)	(13,023)
Free cash flow	24,596	14,688	(3,783)	(2,607)	16,298	744	3,612	(3,349)	973	(1,007)	(12,672)

HISTORICAL STOCK PRICE



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