

# Zacks Small-Cap Research

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## Finjan Holdings

(FNJN-NASDAQ)

### FNJN: Finjan Settles with Symantec/Blue Coat for \$65M with the Possibility of \$45M More

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

### OUTLOOK

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. Given its recent licensing deals we believe FNJN stock is trading near a \$14 million enterprise value.

Current Price (03/01/18) \$3.12

**Valuation \$8.33**

### SUMMARY DATA

**52-Week High \$3.80**

**52-Week Low \$1.40**

**One-Year Return (%) 110.1**

**Beta -0.7**

**Average Daily Volume (share) 772,419**

**Shares Outstanding (mil) 28**

**Market Capitalization (\$mil) \$86**

**Short Interest Ratio (days) 1**

**Institutional Ownership (%) 34**

**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	7.6
P/E using 2018 Estimate	2.7
P/E using 2019 Estimate	4.7

Zacks Rank	N/A
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Risk Level	Above Average
Type of Stock	Small-Growth
Industry	Internet-Software
Zacks Rank in Industry	N/A

## ZACKS ESTIMATES

### Revenue

(in millions of \$)

	Q1	Q2	Q3	Q4	Year	
	(Mar)	(Jun)	(Sep)	(Dec)	(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 E	3.0 E	5.0 E	9.0 E	82.5 E	
2019					67.5 E	

### EPS

(GAAP)

	Q1	Q2	Q3	Q4	Year	
	(Mar)	(Jun)	(Sep)	(Dec)	(Dec)	
2016	-\$0.05 A	-\$0.20 A		-\$0.20 A	\$0.17 A	
2017	\$0.69 A	-\$0.29 A		-\$0.16 A	\$0.40 E	
2018	\$1.48 E	-\$0.16 E		-\$0.10 E	\$0.04 E	

## WHAT'S NEW

### Finjan Settles With Symantec for \$65 Million With \$45 Million More Possible

Finjan settled its long running litigation with Symantec and its subsidiary Blue Coat for \$65 million to be paid within the next 20 calendar days. Also part of the agreement is for Symantec to pay another \$45 million to Finjan for licensing for any other company it might buy in the next four years that is we believe is on an extensive list of names agreed upon by the two. Once the \$65 million has been received, Finjan will retire the rest of the preferred outstanding, part of which was already paid down in Q4 2017.

We have adjusted earnings estimates based on this settlement and tentatively expecting \$82.5 million in revenues for 2018, of which \$65 million is booked in Q1 2018. EPS for the year could be \$1.17 versus an expected \$0.44 in 2017. The company has not yet reported it Q4 2017 quarter.

## Q4 2017

We expect the company to report Q4 revenues of \$25 million: resulting from the \$17.5 million settlement with Sophos, ending a dispute amicably with Avast, and a license with Veracode. It also has prepaid revenues that were due in 2018 from Proofpoint (\$3.3 million) and Sophos (\$1.25 million.) The company also booked its first revenues from the patents bought from IBM and called Finjan Blue. It received \$2 million from an unknown licensor, which paid back the cost of the patents.

Finjan settled with FireEye for a net \$12.5 in cash that was paid in Q4 2017. FireEye agreed to pay Finjan \$17.5 million in license fees comprised of \$12.5 million in cash which was paid on December 29, 2017, and \$5.0 million which will be offset by \$5 million in license fees from Finjan to FireEye under the FireEye cross license agreement. With this payment, Finjan redeemed about 31% of the Series A-1 preferred shares or \$4.7 million of the \$15.3 million Series A-1 Preferred Stock financing in January. From December 16, 2017 to March 16, 2018 Finjan is able to redeem this stock at 1.3 times the original purchase price. It will now pay off the remaining \$13 million of preferred outstanding with the proceeds from Symantec.

On December 6, 2017 Finjan announced that it **filed a patent infringement lawsuit in the U.S. Northern District of California against Zscaler** after more than one year of good faith efforts to resolve its patent dispute. The complaint alleges that Zscaler's products and services infringe at least four Finjan patents, 6,804,780; 7,647,633; 7,975,305; and 8,677,494. Finjan is seeking, among other things, a jury trial, 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, as well as preliminary and permanent injunctive relief from continuing to infringe the '633 and '305 Patents.

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## 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.
- 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 \$86 million and an **enterprise value of \$14 million** (including the FireEye and imminent Symantec payments). 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.

## 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

Company	Date and Location	Status	Patent numbers
ESET	United States District Court for the Northern District of California on July 1, 2016	Suing for minimum of \$44 million. Markman Sept. 24, 2017 Trial no later than Dec 2018.	<b>6,154,844</b> ; <b>6,804,780</b> ; 7,975,305; 8,079,086; 9,189,621; and 9,219,755.
	German District Court in Dusseldorf	Nullity Action with Blue Coat Nov 21, 2018.	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.	<b>6,154,844</b> ; <b>6,804,780</b> ; <b>7,647,633</b> ; <b>8,141,154</b> ; and <b>8,677,494</b>
		Markman scheduled June 15, 2018.  Trial date June 1, 2020	
SonicWall (\$1.4 billion)	United States District Court for the Northern District of California on August 4, 2017	Initiated August 4, 2017.	<b>6,154,844</b> ; <b>6,804,780</b> ; <b>6,965,968</b> ; <b>7,058,822</b> ; <b>7,613,926</b> ; <b>7,647,633</b> ; <b>7,975,305</b> ; <b>8,141,154</b> ; <b>8,225,408</b> ; <b>8,677,494</b> .
		Markman scheduled Oct 12, 2018	
Bitdefender	United States District Court for the Northern District of California on August 16, 2017	Initiated August 16, 2017.	<b>6,804,780</b> ; <b>7,930,299</b> ; <b>8,141,154</b> ; and <b>8,677,494</b>
Juniper Networks (\$5 billion)	United States District Court for the Northern District of California on September 29, 2017	Initiated September 29, 2017.	<b>6,154,844</b> ; <b>6,804,780</b> ; <b>7,613,926</b> ; <b>7,647,633</b> ; <b>7,975,305</b> ; <b>8,141,154</b> ; <b>8,225,408</b> ; <b>8,677,494</b> .
Zscaler (\$250 million est.)	United States District Court for the Northern District of California on December 5, 2017	Initiated December 5, 2017.	<b>6,804,780</b> ; <b>7,647,633</b> ; <b>7,975,305</b> ; <b>8,677,494</b>

Highlighted patent numbers have been successfully defended in court.

## VALUATION

Q4 2017 and Q1 2018 have been very successful for Finjan. If we take the cash at the end of December 2017 of \$41 million and add the \$65 million about to be received, we reach \$106 million total cash. From that amount the company needed to pay a quarter of operating expenses, and will pay off the preferred which should cost approximately \$20 million. It could have \$66 million left or \$2.38 per share in cash and no debt. A market value of \$86 million then equates to a current enterprise value of \$20 million.

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	Margin	2018E	LTM		
Acacia Research	ACTG	\$54	\$65	-15.5x	-4%	0.8x	0.7x	y	\$43
Interdigital	IDCC	\$282	\$533	4.4x	67%	5.6x	3.0x	y	\$1,590
Inventergy Global	INVT	NA	\$1	-0.6x	-191%	NA	1.2x	n	\$2
Marathon	MARA	\$33	\$1	-3.7x	-1266%	1.1x	47.3x	y	\$37
Neonode	NEON	\$15	\$10	-10.9x	-23%	1.7x	2.5x	y	\$25
Network-1	NTIP	NA	\$19	0.3x	126%	NA	0.4x	n	\$8
Parkervision	PRKR	\$43	\$0	-1.4x	-8289%	0.5x	113.7x	y	\$21
Pendrell	PCOA	NA	\$43	-1.1x	71%	NA	-0.8x	n	-\$35
Rambus	RMBS	\$397	\$393	12.2x	8%	3.4x	3.4x	y	\$1,330
RPX	RPXC	\$299	\$330	1.7x	62%	1.2x	1.0x	y	\$345
VirnetX	VHC	NA	\$2	-12.0x	-1194%	NA	143.4x	n	\$222
Quarterhill	QTRH	\$106	\$142	2.1x	58%	1.7x	1.2x	y	\$176
<b>Average</b>				<b>-1.4x</b>	<b>-1173%</b>	<b>2.0x</b>	<b>21.6x</b>		<b>\$446</b>

Looking at the current pipeline there is upwards of another \$240 million possible although some of the estimates might need to be revised down based on the Symantec settlement.

	2017 Revenues	% Relevant	License
<b>Estimated</b>			
Palo Alto Networks	1,800	17%	30.0
ESET	NA	NA	30.0
Cisco	48,300	0%	30.0
SonicWall	NA	NA	20.0
Bitdefender	103	100%	10.0
Juniper Networks	5,000	10%	50.0
Zscaler	250	10%	25.0
Future Symantec	DK	DK	45.0
Total potential			240.0

To get some perspective this is list of past licenses already paid:

Symantec/Blue Coat			65.0
Websense	DK	DK	8.0
Avast Software	DK	DK	10.7
Undisclosed	DK	DK	3.7
Proofpoint	DK	DK	10.9
European undisclosed			0.6
F5	2,100	DK	4.0
Sophos	447	DK	15.0
Veracode	230	DK	2.0
Avira Holding	DK	DK	4.9
FireEye			17.5
Total actual	DK	DK	142.2

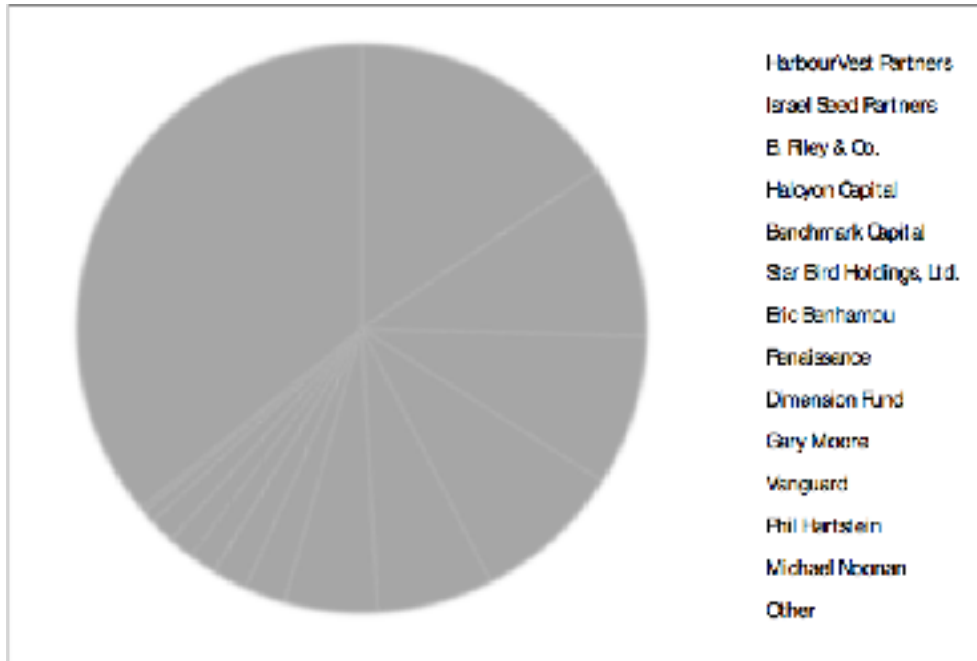
## RISKS

- 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.

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## OWNERSHIP



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## INCOME STATEMENT

In Thousands	2017E				2018E				2015	2016	2017E	2018E	2019E
	Q1	Q2	Q3	Q4E	Q1E	Q2E	Q3E	Q4E					
Waiverwa	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0,000	\$0	\$0	\$0
Other licenses	3,745	2,300	0	1,300	0	3,000	5,000	9,000	4,075	7,478	\$3,345	17,200	29,000
CyberRisk Security Solutions	2	0	0	0	0	0	0	0	12	389	\$61	500	0
FireEye	0	0	0	17,000	0	0	0	0	0	0	17,560	0	0
ShimgeBlue Coal.	0	0	0	0	05,000	0	0	0	0	0	0	05,000	45,000
Protepoint	0	0	0	3,300	0	0	0	0	0	7,880	0	0	0
Expino	15,000	0	0	1,250	-	0	0	0	0	0	15,000	0	2,580
<b>Total Revenue</b>	<b>21,747</b>	<b>2,300</b>	<b>0</b>	<b>23,400</b>	<b>65,000</b>	<b>3,000</b>	<b>5,000</b>	<b>9,000</b>	<b>1,687</b>	<b>18,287</b>	<b>45,608</b>	<b>62,600</b>	<b>67,600</b>
Cost of revenue	1,804	276	0	NA	1,800	270	260	600	874	6,017	NA	18,508	19,500
Gross profit	20,943	2,024	0	NA	62,000	2,730	4,740	8,400	803	12,270	NA	44,092	48,100
Gross Margin	96%	88%	100%	NA	95%	91%	95%	93%	48%	67%	NA	70%	71%
<b>Operating Expenses:</b>													
BC&A	4,837	4,835	5,112	NA	3,800	3,700	3,700	6,700	17,567	14,430	NA	28,000	30,000
R&D	153	334	330	NA	350	350	400	500	301	570	NA	1,600	2,000
Amis license fee	0	0	325	NA	325	325	325	325	0	0	NA	1,500	1,500
Total operating expenses	4,990	5,169	5,767	NA	4,475	4,375	4,425	7,525	17,868	15,000	NA	29,600	33,500
Operating Income	16,274	(2,866)	(5,767)	15,478	44,525	(1,645)	(2,775)	1,173	(12,384)	3,287	16,000	34,000	34,100
Other income													
Change in fair value of warrant liability			1,530	-	-	-	-	-	-	-	1,530	-	-
Loss on settlements	0	0	0	0	0	0	0	0	0	0	0	0	0
Other income	0	0	0	0	0	0	0	0	1,271	0	0	0	0
Interest income	0	0	0	0	0	0	0	0	12	1	0	0	0
Total other income	0	0	1,530	0	0	0	0	0	1,283	1	0	0	0
Pretax profit	16,274	(2,866)	(4,237)	13,073	44,525	(1,645)	(2,775)	1,173	(12,362)	329	10,030	30,000	20,700
Income taxes	324	(56)	-	-	-	-	-	-	0	0	288	1,088	628
Tax rate	2%	0%	0%	0%	0%	0%	0%	0%	0%	0%	3%	3%	3%
Net Income	15,950	(2,820)	(4,237)	13,073	44,525	(1,645)	(2,775)	1,173	(12,362)	329	10,318	28,912	20,072
Amortization of Intangible Assets	-	(1,975)	-	(NA)	-	-	-	-	-	(1,708)	(4,081)	-	-
Net inc. to common shareholders	15,950	(4,795)	(4,237)	12,127	44,525	(1,645)	(2,775)	1,173	(12,362)	(3,417)	6,237	28,912	20,072
<b>Net Income Per Share:</b>													
EPS	\$0.68	(\$0.23)	(\$0.18)	\$0.40	\$1.48	(\$0.18)	(\$0.18)	\$0.04	(\$0.58)	(\$0.28)	\$0.44	\$1.17	\$0.67
Diluted EPS	\$0.68	(\$0.23)	(\$0.18)	\$0.40	\$1.48	(\$0.18)	(\$0.18)	\$0.04	(\$0.52)	(\$0.28)	\$0.44	\$1.17	\$0.67
Avg Shares Outstanding	23,100	23,257	27,020	27,707	27,707	27,007	27,507	29,007	22,549	22,407	25,000	27,707	29,000
Diluted Shares	23,217	23,257	27,020	30,000	30,000	29,000	29,700	29,000	24,400	22,220	25,000	29,000	30,000

## BALANCE SHEET



<b>\$ in Thousands</b>	<b>Sept 30, 2017</b>	<b>June 30, 2017</b>	<b>Qtr-Qtr % Change</b>	<b>Dec. 31, 2016</b>	<b>Sept-Dec % Change</b>
<b>Current assets:</b>					
Cash and cash equivalents	\$33,395	\$39,884	-16%	\$13,678	144%
Accounts receivable, net	-	9	-100%	1,066	-100%
Prepaid expenses and other current assets	543	412	32%	292	86%
<b>Total current assets</b>	<b>33,938</b>	<b>40,305</b>	<b>-16%</b>	<b>15,036</b>	<b>126%</b>
Property and equipment, net	167	178	-6%	203	-18%
Investments	2,618	2,618	0%	2,745	-5%
Intangible assets, net	8,279	0	NM	0	0%
Other long term assets	322	322	0%	321	0%
<b>Total Assets</b>	<b>45,324</b>	<b>43,423</b>	<b>4%</b>	<b>18,305</b>	<b>148%</b>
<b>Current Liabilities:</b>					
Accounts payable	2,831	3,558	-20%	1,858	52%
Accounts payable - related parties	13	25	-48%	88	-85%
Accrued expenses	504	367	37%	1,832	-72%
Accrued income taxes	241	241	0%	3	7933%
Warrant liability	1,783	3313	-46%	0	NM
Other current liabilities	1,000	35	2757%	33	2930%
<b>Total current liabilities</b>	<b>6,372</b>	<b>7,539</b>	<b>-15%</b>	<b>3,814</b>	<b>67%</b>
Other non-current liabilities	91	102	-11%	119	-24%
Other liabilities, non-current - patent	5,500	0	NM	0	0%
Total Liabilities	11,963	7,641	57%	3,933	204%
<b>Series A Preferred Stock</b>	<b>0</b>	<b>0</b>	<b>0%</b>	<b>13,486</b>	<b>-100%</b>
<b>Series A-1 Preferred Stock</b>	<b>18,009</b>	<b>18,009</b>	<b>0%</b>	<b>0</b>	<b>NM</b>
<b>Stockholders' Equity</b>					
Common stock	3	2	50%	2	50%
Additional paid-in capital	23,722	18,349	29%	18,140	31%
Retained earnings	(8,373)	(1,306)	541%	(17,256)	-51%
<b>Total Stockholders' Equity</b>	<b>15,352</b>	<b>17,045</b>	<b>-10%</b>	<b>886</b>	<b>1633%</b>
Total Liabilities & Stockholders' Equity	\$45,324	\$43,423	4%	\$18,305	148%
Cash per share	\$1.44	\$1.71	-16%	\$0.60	140%
Working Capital	\$27,566	\$32,766	-16%	\$11,222	146%
Quick ratio	5.3	5.3	0%	3.9	35%
Debt/TA	40%	41%	-4%	74%	-46%

## CASH FLOW

	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
<b>Cash flows from operating activities:</b>									
Net income	\$ (4,237)	\$ (2,430)	\$ 14,060	\$ 350	\$ 3,019	\$ (3,302)	\$ 800	\$ (1,193)	\$ (12,602)
<b>Adjustments to reconcile net loss to net cash used in operating activities:</b>									
Gain on investment	0	0	0	0	0	0	0	0	(1,271)
Depreciation and amortization	207	104	12	43	(81)	76	14	14	51
Changes in fair value of warrant liability	(1,533)								
Loss on disposal of assets	0	0	0	0	0	0	0	0	34
Stock-based compensation	222	213	200	372	(784)	220	311	142	736
<b>Changes in operating assets and liabilities:</b>									
Accounts receivable	9	(7)	1,064	(1,056)	0	0	0	0	2,016
Inventories	0	0	0	0	0	0	0	0	0
Prepaid expense and other current assets	(102)	(120)	0	30	(220)	4	55	30	(210)
Other long term assets	1	(1)	0	4	(3)	(1)	1	0	(325)
Accrued expenses	157	(604)	(781)	1,407	(5,013)	(694)	2,517	(4)	(941)
Accounts payable	(127)	(1,406)	3,145	(352)	2,029	535	(955)	(35)	545
Accounts payable - related parties	(12)	2	(85)	71	2	(3)	(3)	4	(53)
Other assets	0	0	0	0	0	0	0	0	132
Other liabilities	(43)	(2)	(13)	(18)	25	(10)	3	(31)	0
Accrued income taxes	0	(88)	324	(6)	0	0	0	0	9
Total Adjustments	(713)	(2,398)	3,881	43	(5,224)	254	1,828	(42)	1,734
Net cash used in operating activities	(5,050)	(4,828)	18,151	1,328	(1,121)	(2,788)	2,451	(1,235)	1,343
<b>Cash flows from investing activities:</b>									
Purchase of intangible assets	(2,000)	0	0	0	0	0	0	0	0
Purchases of property and equipment	0	0	0	(9)	0	(8)	0	0	(273)
Proceeds from investment	0	0	127	0	0	0	0	0	920
Purchase of additional investment	0	0	0	(558)	530	(300)	(250)	0	(750)
Net cash provided by (used in) investing activities	(2,000)	0	127	(558)	530	(308)	(250)	0	(199)
<b>Cash flows from financing activities:</b>									
Proceeds from common share offering	1,000	10,365	0	0	0	0	0	0	0
Proceeds from sale of Preferred A 1, net	0	14,375	0	0	0	0	0	0	0
Proceeds from sale of Preferred A, net	0	0	0	0,100	(18,080)	0	5,400	0	0
Redemption Series B Preferred shares	0	(8,594)	(1,772)	(2,743)	0	(2,594)	0	0	0
Proceeds from sale of stock options	25	201	0	11	(152)	39	70	0	54
Net cash provided by financing activities	1,025	16,447	(1,772)	0,358	(18,132)	(2,555)	5,500	0	54
Net decrease in cash and cash equivalents	(6,025)	(13,451)	12,756	7,577	(18,744)	(5,688)	12,167	(1,235)	1,138
Cash and cash equivalents - beginning	30,884	17,229	(13,678)	8,101	11,583	17,229	5,862	8,101	4,903
Cash and cash equivalents - ending	24,859	3,778	17,229	13,578	(7,161)	11,541	18,029	6,866	6,041

## HISTORICAL STOCK PRICE



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