Zacks Small-Cap Research

April 9, 2015

Lisa Thompson
312-265-9154
lthompson@zacks.com

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

Finjan Holdings (FNJN-NASDAQ)

FNJN: First International License, First Cross-license and No Litigation Needed

Current Recommendation	**Buy**
Prior Recommendation	Buy
Date of Last Change	9/15/2014
Current Price (04/08/14)	$1.85
Target Price	**$5.00**

OUTLOOK

Finjan Holdings, Inc. is an entity that was created last year to enforce the patents of Finjan Inc., a former cybersecurity vendor from Israel founded in 1997. This new company is pursuing licensing arrangements and/or suing current vendors of cybersecurity hardware and software products it believes infringe upon its patents. The former company was a pioneer in a number of foundational attack prevention technologies such as anti-malware and sandboxing. In Q3 2014, the new company began to generate IP revenues by licensing to Websense and this quarter Q3 2015 licensed to F-Secure.

SUMMARY DATA

52-Week High	**$6.25**
52-Week Low	**$1.81**
One-Year Return (%)	**-68.10**
Beta	**0.38**
Average Daily Volume (sh)	**131,991**
Shares Outstanding (mil)	**23**
Market Capitalization ($mil)	**$42**
Short Interest Ratio (days)	**0.13**
Institutional Ownership (%)	**28**
Insider Ownership (%)	**29**
Annual Cash Dividend	**$0.00**
Dividend Yield (%)	**0.00**
5-Yr. Historical Growth Rates	
Sales (%)	**N/M**
Earnings Per Share (%)	**N/M**
Dividend (%)	**N/M**
P/E using TTM EPS	**N/M**
P/E using 2015 Estimate	**N/A**
P/E using 2016 Estimate	**-4.7**
Zacks Rank	**3**

Risk Level	**High**
Type of Stock	**Small-Blend**
Industry	**Internet-Software**
Zacks Rank in Industry	**36 of 66**

ZACKS ESTIMATES

Revenue
(in millions of $- Restated)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	0.0 R	0.0 R	0.0 R	0.0 R	0.0 R
2014	0.0 R	0.0 R	5.0 R	0.0 A	5.0 A
2015	0.0 E	1.0 E	26.3 E	0.0 E	27.3 E
2016					11.0 E

Earnings per Share
(Restated EPS is continuing operating earnings before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	NA	NA	NA	NA	-$0.26 A
2014	-$0.08 R	-$0.15 R	$0.03 R	-$0.18 A	-$0.38 A
2015	-$0.16 E	-$0.12 E	$0.76 E	-$0.16 E	$0.34 E
2016					-$0.13 E

© Copyright 2015, Zacks Investment Research. All Rights Reserved.

Finjan Licenses First International Company for $1 Million

Today Finjan announced its first license arrangement with a company outside the US, F-Secure (Helsinki: FSC1V). F-Secure Corporation is an anti-virus, cloud content and computer security company with over 1000 employees that generated $164 million in revenue in 2014 and is based in Helsinki with offices in more than 20 countries. While the dollar amount of this license was only $1 million this is significant is three ways:

- This company is located outside the US, showing that international patents have some worth and that companies outside the US are indeed potential licensees.
- The license was negotiated and completed without litigation.
- Finjan also took assignment of (aka bought) two of F-Secure's patent.

The entire $1 million in license revenues will be booked in Q2 2015, but $700,000 of the cash will be paid by April 20, while the remaining $300,000 will come due March 31, 2016. The gross margin is expected to be greater than 80% based on Finjan's disclosure from its Websense license

F-Secure sells to both consumers and businesses. Its current product line is as follow:

For the Home-user

- F-Secure Internet Security
- F-Secure Anti-Virus
- F-Secure Anti-Virus for Mac
- F-Secure Mobile Security
- F-Secure Online Backup
- F-Secure Free Anti-theft for Mobile

For Businesses

- F-Secure Protection Service
- F-Secure Business Suite
- F-Secure Client Security
- F-Secure Anti-Virus for Servers
- F-Secure Linux Security
- F-Secure Internet Gatekeeper for Linux
- F-Secure Protection Service for Email
- F-Secure Policy Manager
- F-Secure Mobile Security for Business,
- F-Secure Messaging Security Gateway
- F-Secure for Exchange

F-Secure claims to be the global leader in providing SaaS security through operators with over 200 telephone operator partners worldwide including AT&T, Vodafone and Telefónica.

We have adjusted our quarterly forecasts to reflect this revenue booking, but have left overall estimates the same, as any Blue Coat resolution is an order of magnitude larger.

The two patents that are being assigned to Finjan are:

U.S. Patent Nos. 8,474,048 issued June 25, 2015

“A method of facilitating the scanning of web pages for suspect and/or malicious hyperlinks that includes receiving at a content hosting website, user generated content. A web page or web page containing said content is then generated and, in the web page source code is included a detection code segment or a link from which a detection code segment can be downloaded. The detection code segment is executable by a web browser or web browser plug-in to scan the web page(s), or cause the web page(s) to be scanned, for suspect and/or malicious links.”

U.S. Patent Nos. 7,769,991 August 3, 2010

“There is provided a method and apparatus for executing an anti-virus application on a mobile communications device. A memory card for coupled to a mobile communications device, and a boot sequence is initiated on the mobile communications device. Prior to completion of the boot sequence, a Symbian recognizer is loaded to the communications device from the memory card. The loaded Symbian recognizer is executed on the mobile communications device to automatically execute an anti-virus application, the anti-virus application also being stored on the memory card.”

According to the company’s recent 10K filing, Finjan currently has engineering consultants looking at various product development opportunities where these patents could be of use in future products. So interestingly, the company is not content to just enforce new and acquired patents, but potentially has plans to develop new commercial products.

Next Events

On March 31, 2015 there was an oral hearing on Inter Parte Reexamination proceedings against two patents owned FireEye. It may be a few weeks before the results of this proceeding are issued by the Patent Trials and Appeals Board (PTAB).
.

To review:

U.S. Patent No. 7,647,633

- FireEye filed a third party request for *ex parte* reexamination of claims 1-7 and 28-33 of Finjan's U.S. Patent No. 7,647,633 on October 7, 2013.
- The request for reexamination was granted and a non-final Office Action was mailed November 19, 2013. The non-final Office Action included rejections of claims 1-7 and 28-33 under various prior art.
- An in-person Examiner interview was conducted at the USPTO on February 4, 2014, and a timely response to non-final Office Action was filed on February 19, 2014. Additionally, a petition to accept an unintentionally delayed priority claim was also submitted.

U.S. Patent No. 7,058,822

- FireEye filed a third party request for *ex parte* reexamination of claims 1-8 and 16-27 of Finjan's U.S. Patent No. 7,058,822 on October 7, 2013.
- The request for reexamination was granted and a non-final Office Action was mailed December 6, 2013. The non-final Office Action included rejections of claims 1-8 and 16-27 under various prior art.
- An in-person Examiner interview was conducted at the USPTO on February 4, 2014, and a timely response to non-final Office Action was filed on March 6, 2014. Additionally, a petition to accept an unintentionally delayed priority claim was also submitted.

On April 16, 2015 there will be a hearing for a motion for summary judgment in the Blue Coat case with a trial beginning on July 20th and expected to last two weeks.

The next major event scheduled it the Markman Hearing with Symantec tentatively set for June 11, 2015 because of the assignment of a new judge. Given the size of Symantec and its long history what happens at Symantec dwarfs all the other activity combined.

2015 Model

Although anything could happen, we have modeled at licensing arrangement with Blue Coat into our 2015 estimate and the recent $1 million in licensing, but no other events. Given that Blue Coat is further along in the process we expect a higher royalty rate. Given the large size of the company and its long history we are using revenues of $27 million for the year which would yield EPS of $0.34 given our estimate of the companies cost structure and its efforts to reduce expenses.

2016 Model

In 2016, the company will book another $2 million from Websense at 100% margins and could have a resolution with Proofpoint as a trial date is set on March 7, 2016. Since Proofpoint is much smaller, with $196 million forecasted in revenues for 2015, we are tentatively using $9 million in licensing. The total revenues of $11 million at 92% gross margins resulting in a loss per share of $0.15.

KEY POINTS

- Finjan holds a number of pioneering patents for cybersecurity hardware and software that is relevant to dozens of companies in this space.
- While its patents have a limited licensing and enforcement track record, the company has the potential to reap large licensing revenues from the $20 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 recent settlement with Websense shows its patents are still valued and able to be monetized.
- The company's has a market cap of $42 million and $19 million in cash but could be worth considerably more if it is successful in its licensing pursuits. Estimating revenues of $27 million in 2015 and an industry multiple of 4.1 times sales, the company could be worth more than $5.00 by next year if it succeeds in reaching successful licensing arrangements.

OVERVIEW

Finjan Holdings is a patent licensing and enforcement firm based in NYC 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 cod

VALUATION

Valuation of an IP company, even with a track record is very difficult and even more so with a company like Finjan that has only one court victory and one recent licensing arrangement. We can however 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, and the upstarts that trade on events and potential. We can see from the table below, these range from Unwired Planet with a negative enterprise value to Tessera with an enterprise value of $1.7 billion and $262 million in sales expected this year. On average, the companies with revenues trade at an average of 4.1X revenues. Since Finjan has generated revenues it should be more valuable than when we launched coverage, but it may be years before it reaches its maximum potential.

Using a valuation based on enterprise value to sales is easier for pre-revenue companies. If Finjan were to generate $27 million in sales in 2015, we could see the market putting a 4.1 times sales multiple on it as shown in the industry average below. Using that and working back to enterprise value per share, we see that given those revenues, Finjan could be worth $5.44 per share by next year, assuming it still has the same amount of cash on the balance sheet as today.

IP Industry Comparable Public Companies

IP Companies

Company	Ticker	Revenue 2015E	Revenue LTM	EV/ EBITDA	EBIDTA Margin	Enterprise Value / Sales 2015E	Enterprise Value / Sales LTM	Included in Average?	Enterprise Value
Interdigital	IDCC	$370	$416	7.2	48%	3.9x	3.4x	y	1,430
Inventergy Globa	INVT	NA	$1	-2.9	-70%	NM	29.3x	n	21
Neonode	NEON	$16	$5	-345.0	NM	9.1x	30.6x	n	145
Parkervision	PRKR	$36	$0	-2.9	NM	1.9x	NM	y	69
Pendrell	PCO	$20	$43	-28.9	-19%	7.8x	3.7x	y	159
Rambus	RMBS	$306	$297	11.6	37%	4.6x	4.8x	y	1,420
RPX	RPXC	$293	$259	2.6	71.90%	1.6x	1.8x	y	479
Tessera	TSRA	$262	$279	8.2	70%	6.6x	6.2x	y	1,720
Unwired Planet	UPIP	$5	$39	5.7	-11%	-1.8x	-0.2x	n	-9
VirnetX	VHC	$20	$1	-8.5	NM	15.3x	245.3x	n	307
Vringo	VRNG	NA	$1	-1.1	NM	NM	38.0x	n	54
Wi-Lan	WILN	$90	$98	3.4	68%	2.4x	2.2x	y	216
Average				**7.6**	**40%**	**4.1x**	**3.2x**		**$785**

	Revenue 2015E	Revenue LTM	EBITDA Margin	Enterprise Value / Sales 2015E	Enterprise Value / Sales LTM	Valuation Range Low	Valuation Range High
FinJan	**$27**	**$5**	**-132.00%**	**4.1x**	**3.2x**	**$16**	**$112**

Conclusion of Enterprise Value	**$112,499,654**
Market Value	**$131,999,654**
Shares Outstanding	24,255,000
Price per Share	**$5.44**

Another way to look at possible revenues from current activity is to compare the relevant revenues of the various companies involved. We are taking a general guess that 20% of Websense’s revenues were affected by Finjan patents which resulted in a licensing fee of $8 million at this stage in the litigation. This was settled before the Markman Hearing. Looking at the rest of the companies we can derive revenues over $200 million for similar licensing at the same stage as Websense.

Blue Coat is much further along in the process and had a Markman Hearing last August. There is a trial date set for July. Because of this we know that Finjan would be seeking higher licensing rates than Websense.

	Revenues	% Relevant		License
FireEye	$428	30%	$128	$13
Blue Coat	500	10%	$50	27
Websense	400	20%	$80	8
Proofpoint	186	50%	$93	9
Sophos	420	25%	$105	11
Symantec (2 seg)	4,200	30%	$1,260	126
Palo Alto Networks	710	42%	$300	30
TOTAL				**224**

RISKS

- The company has a limited track record with which to set expectations.
- Finjan's patents have only prevailed in court once, in 2010, and only two patents in the portfolio, **7,058,822** and **6,804,780** have been upheld thus far.
- There is no way to predict the timing of lawsuit settlements or licensing agreements, or even the length of a lawsuit.
- As the current company burns cash and has little licensing revenue, it may not generate enough revenues to cover costs and continue operations in the future unless it generates greater income or receives further financing.
- The stock is high risk and is expected to have wide swings in stock price depending on unpredictable events.
- Government is expected to legislate new laws on patent enforcement that could affect the company's ability to monetize its patents as it currently expects.

BALANCE SHEET

$ in Thousands	12/31/14	12/31/2013 Restated	% Change
Current assets:			
Cash and cash equivalents	$17,505	$24,580	-16%
Accounts receivable, net	2,016	13	1854%
Prepaid expenses and other current assets	112	99	141%
Curr. Assets related to disc. oper.	0	140	
Total current assets	19,633	24,832	-15%
Property and equipment, net	66	60	1337%
Investments	1000	500	100%
Non-current assets related to disc. oper.	0	2,555	-99%
Total Assets	20,699	27,947	-18%
Current Liabilities:			
Accounts payable	1,675	416	148%
Accounts payable - related parties	100	15	-13%
Accrued expenses	800	282	239%
Accrued income taxes	0	4	0%
Other current liabilities related to disc. oper.	0	168	-91%
Total current liabilities	2,575	885	128%
Deferred tax liabilities related to disc. oper.	0	39	-10%
Total Liabilities	2,575	924	122%
Commitments and contingencies			
Stockholders' Equity			
Common stock	2	2	0%
Additional paid-in capital	23,126	21,546	4%
Retained earnings	(5,004)	5,475	-96%
Total Stockholders' Equity	18,124	27,023	-17%
Total Liabilities & Stockholders' Equity	$20,699	$27,947	-12%

INCOME STATEMENT

In Thousands	2014 Q1R	2014 Q2R	2014 Q3R	2014 Q4	2015 Q1E	2015 Q2E	2015 Q3E	2015 Q4E	2013R	2014	2015E	2016E
Websense	$0	$0	$4,998	$0	$0	$0	$0	$0	$0	$4,998	$0	$2,000
Other licenses						700	26,300				27,000	9,000
Total Revenues	**0**	**0**	**4,998**	**0**	**0**	**1,000**	**26,300**	**0**	**0**	**4,998**	**27,000**	**11,000**
Cost of revenues	0	0	800	0	0	30	4,406	0	0	800	4,436	900
Gross profit	0	0	4,198	0	0	970	21,894	0	0	4,198	22,564	10,100
Gross Margin			84%			97%	83%			84%	84%	92%
Operating Expenses:												
SG&A	2,791	3,331	3,535	4,090	3,700	3,620	3,500	3,500	6,225	13,813	14,320	13,500
Transaction costs	0	0	0	0	0	0	0	0	790	0	0	0
Total operating expenses	2,791	3,331	3,535	4,090	3,700	3,620	3,500	3,500	7,015	13,813	14,320	13,500
Operating Income	(2,791)	(3,331)	663	(4,090)	(3,700)	(2,650)	18,394	(3,500)	(7,015)	(9,615)	8,244	(3,400)
Other Income												
Gain on settlements	1,000	0	0	0	0	0	0	0	1,000	1,000	0	0
Other income	0	5	0	(5)	0	0	0	0	9	0	0	0
Interest income	68	6	8	8	8	7	6	5	153	90	26	100
Total other income		11	8	3	8	7	6	5	1,162	1,090	26	100
Loss before taxes	(1,791)	(3,320)	671	(4,087)	(3,692)	(2,643)	18,400	(3,495)	(5,853)	(8,525)	8,270	(3,300)
Income taxes	1	(2)	(2)	8	0	0	0	0	(260)	5	0	0
Net Income	(1,792)	(3,322)	673	(4,079)	(3,692)	(2,643)	18,400	(3,495)	(5,593)	(8,520)	8,270	(3,300)
Net Income Per Share:												
Basic EPS from Cont.	**($0.08)**	**($0.15)**	**$0.03**	**($0.18)**	**($0.16)**	**($0.12)**	**$0.82**	**($0.16)**	**($0.26)**	**($0.38)**	**$0.37**	**($0.15)**
Diluted EPS	($0.08)	($0.15)	$0.03	($0.17)	($0.16)	($0.12)	$0.76	($0.16)	($0.26)	($0.38)	$0.34	($0.13)
Basic Shares	22,368	22,379	22,422	22,445	22,450	22,450	22,450	22,450	21,602	22,404	22,450	22,500
Diluted Shares	22,368	22,379	23,036	24,250	24,255	24,255	24,255	24,255	23,227	24,209	24,255	24,555

STOCK PRICE CHART



Source: E*TRADE

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, Lisa Thompson, 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 acks 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 1,129 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- 15.4%, Hold/Neutral- 74.9%, Sell/Underperform – 8.9%. Data is as of midnight on the business day immediately prior to this publication.