Zacks Small-Cap Research

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

scr.zacks.com

10 S. Riverside Plaza, Chicago, IL 60606

# Finjan Holdings (FNJN-NASDAQ)

## FNJN: Looking for Settlements in Q2 and Q3 2016

## UPDATE

Finjan is positioned to grow not only by pursuing IP licensing, but also by penetrating cybersecurity consulting services, and investing in new IP via R&D and in cybersecurity startups. Its new consulting business booked its first revenues in Q4. Near term we are anticipating settlements in one or more of the cases set to go to trial later this year. In 2017 we expect it to collect over $40 million from Blue Coat if the ruling is upheld on appeal.

| | |
|---|---|
| **Current Recommendation** | **Buy** |
| Prior Recommendation | Buy |
| Date of Last Change | 9/15/2014 |
| Current Price (03/28/16) | $0.99 |
| **Target Price** | **$3.75** |

## SUMMARY DATA

| | |
|---|---|
| **52-Week High** | **$2.32** |
| **52-Week Low** | **$0.83** |
| **One-Year Return (%)** | **-50.8** |
| **Beta** | **-1.19** |
| **Average Daily Volume (sh)** | **18,962** |
| **Shares Outstanding (mil)** | **23** |
| **Market Capitalization ($mil)** | **$22** |
| **Short Interest Ratio (days)** | **0.74** |
| **Institutional Ownership (%)** | **28** |
| **Insider Ownership (%)** | **30** |
| **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 2016 Estimate** | **N/M** |
| **P/E using 2017 Estimate** | **1.5** |
| **Zacks Rank** | **N/A** |

| | |
|---|---|
| **Risk Level** | **Above Average** |
| **Type of Stock** | **Small-Blend** |
| **Industry** | **Internet-Software** |

## ZACKS ESTIMATES

**Revenue**
(in millions of $- Restated)

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2014 | 0.0 R | 0.0 R | 5.0 A | 0.0 A | 5.0 A |
| 2015 | 0.0 A | 0.7 A | 0.0 A | $4.0 A | 4.7 A |
| 2016 | 2.4 E | 0.4 E | 3.2 E | 1.0 E | 7.0 E |
| 2017 | | | | | 53.9 E |

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

| | Q1 (Mar) | Q2 (Jun) | Q3 (Sep) | Q4 (Dec) | Year (Dec) |
|---|---|---|---|---|---|
| 2014 | -$0.08 R | -$0.15 R | $0.03 R | -$0.18 A | -$0.38 A |
| 2015 | -$0.19 A | -$0.12 A | -$0.21 A | -$0.05 A | -$0.56 A |
| 2016 | -$0.09 E | -$0.19 E | -$0.07 E | -$0.16 E | -$0.56 E |
| 2017 | | | | | $0.65 E |

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## Could Settlements Be Coming in Q2 or Q3?

As trial dates approach, and the Patent Office rules on petitions, **we believe there may soon be one or more licensing deals struck with defendants.** The **Proofpoint trial is scheduled for June 16, 2016** and both FireEye (FEYE) and Palo Alto Networks (PANW) may have stays lifted as the Patent Office rules on Finjan's patents. Once patent rulings have come down, the parties may be more amenable to a licensing deal as one more hurdle is cleared. The company has had a great track record with patent reviews. In general the patent office strikes down 80% of contested patents. However in Finjan's case, the company is 2 for 15 or only 15%.

The Patent Office recently ruled almost entirely against Symantec (SYMC). Symantec attempted to invalidate 8 of the asserted Finjan patents through 11 separate IPR challenges; 10 of the 11 challenges were denied institution while 30 of 31 grounds of invalidity were challenged. We expect the stay in the Finjan vs. Symantec case to be lifted at the April 5, 2016 case management hearing, and for a trial date to be set for sometime in 2017. This company has the largest potential revenues to Finjan by a wide margin.

To date, only two responses have been received from the PTAB in the Palo Alto case where it filed 13 IPRs in an attempt to invalidate 10 Finjan patents. The two were related to Finjan's U.S. Patent No. 7,418,731 and U.S. Patent No. 8,141,154. The PTAB denied institution of the '731 patent, but agreed to hear evidence against the '154 patent. Since SYMC was resolved, we expect decisions for Palo Alto and FireEye to come more quickly now.

The **Sophos trial is scheduled for September 6, 2016** and we look for a possible settlement now that it is drawing closer.

We believe given a high probability of licensing deals to be struck near term based on the enforcement calendar, we believe **investors could benefit between now and October**. The stock is at the lower end of its range and is trading at an enterprise value of $16.3 million. This is extremely low given an industry that trades at an average valuation of 2.3 times sales and the company is expected to book over $50 million in 2017.

## Q4 Earnings Results

Information from the 10K just filed by Finjan show few surprises in Q4 but confirms that the new subsidiary CybeRisk that provides cybersecurity consulting services has started to generate revenues. A tiny $12,000 was booked in the fourth quarter reflecting a small test job that was executed in order to be tested for a larger opportunity. In general we expect the contract size CybeRisk is pursuing is more in the $50,000 - $250,000 range believe the business will be able to generate $2 million in revenue this year.

Another encouraging sign in the 10K is that once again the auditors allowed the statement that the company has enough cash visibility to sustain itself for the next twelve months. Given the company burns about $4 million a quarter, has $6.1 million on the balance sheet and has a contracted amount of $6 million to be paid in the next 12 months there remains another $4 million needed. This implies there is a good indication that another $4 million will be coming into the hoppers over the next twelve months. That will also get us a lot closer to the $40 million expected to be received from Blue Coat some time in 2017.

## THE PRESENT COMPANY ENFORCEMENT

| Company | Date and Location | Status | Patent numbers |
|---|---|---|---|
| FireEye **($623 million)** | US District Court for the Northern District of California on July 8, 2013 | Stayed pending review by PTAB. | **6,804,780**, 8,079,086, 7,975,305, 8,225,408, **7,058,822**, 7,647,633 and 6,154,844 |
| Blue Coat **(est. >$500m)** | US District Court for the Northern District of California on August 28, 2013<br><br>US District Court for the Northern District of California on July 16, 2015 | **Won $40m judgment. All patents upheld. Only 7,058,822 did not infringe.**<br><br>Trial date October 30, 2017 | 6,154,844, **6,804,780**, 6,965,968, **7,058,822**, 7,418,731, and 7,647,633<br><br>6,154,844; 6,965,968; 7,418,731; 8,079,086; 8,225,408; 8,566,580; 8,677,494 |
| Proofpoint **($265 million)** | United States District Court for the Northern District of California on December 16, 2013 | Pretrial conference set May 10, 2016. Trial date for June 16, 2016. | 6,154,844, **7,058,822**, 7,613,918, 7,647,633, 7,975,305, 8,079,086, 8,141,154, and 8,225,408 |
| Sophos **($447 million)** | United States District Court for the Northern District of California on March 14, 2014 | Pretrial conference August 8, 2015. Trial set Sept. 6, 2016. | 6,154,844, **6,804,780**, 7,613,918, 7,613,926, 7,757,289, 8,141,154, 8,566,580, and 8,677,494 |
| Symantec **($6.5 billion)** | United States District Court for the Northern District of California on June 1, 2014 | Expect stay lifted during the April 5, 2016 case management conference. | 6,154,844; 7,613,926; 7,756,996; 7,757,289; 7,930,299; 8,015,182; 8,141,154; and 8,677,494 |
| **Palo Alto Networks ($1.1 billion)** | United States District Court for the Northern District of California on November 4, 2014 | Stayed pending review by PTAB. | **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 |

Highlighted patent numbers have been successfully defended in court.

## Q1 2016 Estimate

Revenues in Q1 should be solely comprised of $2 million payment from Websense and a $300,000 payment from F-Secure plus whatever CybeRisk brings in. This should result in EPS loss of approximately $0.09 per share.

### Q2 2016 Estimate

In Q2 there are no scheduled payments and all revenue should come solely from CybeRisk unless there is a licensing deal struck. We are looking for $400,000 in revenues from them. This could result in a loss per share of as much as $0.19 per share. Look for a potential settlement from Proofpoint as the company is scheduled to go to trial on June 16, 2016.

### Q3 2016 Estimate

In Q3 two payments totaling $2.65 million should be received from the mystery licensee. With Sophos is expected to go to trial on September 6, 2016 and a settlement could also be reached here. Sophos has almost twice the revenues of Proofpoint. With no new licensing, EPS could be a loss of $0.07.

### 2016 Year

Using only revenues under contract and some business estimated from CybeRisk, we are looking for minimal revenue of $7 million in 2016. This will increase significantly if licensing deals/settlements are contracted with any of the parties involved in current litigation as the are all of a significant size in terms of cybersecurity revenue. At $7 million the company could lose as much as $0.56 per share or more as the litigation expense ramps up as trials approach.

### 2017

### RECAP: The Win Against Blue Coat

The big win for Finjan against Blue Coat on August 5, 2015 awarded the company $40 million plus an additional 10% in interest per year. It has increased the value of Finjan significantly as more of its patents have proven to have value and it has more ammunition with which to convince other entities to license its technology. While all six patents were considered valid, the jury decided one, 822, was not applicable to Blue Coat's products. The award breakdown according to papers filed by the jury was as follows, with 844 being the big contributor.

| *Patent Number* | *$ In Millions* | *Filed* |
|---|---|---|
| 6,154,844 | 24.00 | 1997 |
| 7,058,822 | 0 | 2001 |
| 7,647,633 | 1.67 | 2005 |
| 7,418,731 | 6.00 | 2004 |
| 6,965,968 | 7.75 | 2003 |
| 6,804,780 | 0.11 | 2000 |

At any rate litigation with Blue Coat has not ended. Most likely should Blue Coat not settle, it will appeal--a process that could take another 10-16 months. We have tentative put revenue from this judgment in 2017. In addition there is the new suit against it that encompasses seven patents and addresses new products that have been introduced by Blue Coat since the lawsuit just won was filed in 2013. Specifically the company named certain of Blue Coat's ProxySG Appliances and Software, the ProxyAV Appliances

and Software, and WebPulse Services (some of which Blue Coat recently launched) as products that are infringing.

The patents Finjan believes are being infringed upon in this new suit are: 6,154,844; 6,965,968; 7,418,731; 8,079,086; 8,225,408; 8,566,580 and 8,677,494, the last four of which are being asserted against Blue Coat for the first time. According to its press release "Finjan is seeking a jury trial; entry of judgment of direct and indirect infringement of certain claims of each of the asserted patents by Blue Coat; preliminary and permanent injunction against Blue Coat and its officers, among others, from infringing the asserted patents; and damages to be determined by a jury."

## 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 it has already won a $40 million judgment against Blue Coat, its biggest opportunity is its litigation with Symantec, a much larger company.
- The company is continuing to file new patents.
- While its patents have already generated > $120M in its licensing and enforcement track record, 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 win against Blue Coat proves its patents are still valued and able to be successfully defended and therefore monetized.
- The company's has a market cap of $23 million and approximately $6 million in cash but could be worth considerably more if it is successful in its licensing pursuits. Estimating revenues of $53 million in 2017 and an industry multiple of 2.3 times sales, the company could be worth as much as $122 million in enterprise value by 2017 if it succeeds in reaching new licensing arrangements.

## 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

## CYBERSECURITY MARKET

The market for cyber security products that may use technology covered by Finjan patents was $21 billion in sales in 2015, according to estimates by Gartner. These types of products include: endpoint and cloud, web gateway and next generation firewall software and hardware products as shown on the following chart.

| Relevant Security Markets | 2013 | 2014 | 2015 | 2016 | 2017 |
|---|---|---|---|---|---|
| Endpoint & Cloud | $11.2 BN | $11.8 BN | $12.5 BN | $13.2 BN | $13.8 BN |
| Web Gateway | $4.1 BN | $4.4 BN | $4.7 BN | $5.0 BN | $5.3 BN |
| Next Gen. Firewall | $4.0 BN | $4.0 BN | $4.0 BN | $3.7 BN | $3.4 BN |
| Total Finjan Technology related Sales | $19.3 BN | $20.2 BN | $21.2 BN | $21.9 BN | $22.5 BN |

Source: Gartner, IDC and Finjan estimates

### Cybersecurity Consulting Business

According to Gartner, the market for information security consulting grew by 8.1% to $15.3 billion in 2014, from $14.2 billion in 2013. Combined, the top 10 providers grew by 12.7%. Three quarters of revenue comes from North America and Western Europe. Deloitte was ranked number one in this market. Other players, and competitors for Finjan in the cybersecurity consulting business include FireEye's Mandiant division, Hacknetics, a division of Ernst & Young, and root9B (RTNB), IBM and Symantec.

## VALUATION

Valuation of an IP company, even with a track record is very difficult. It is even more so with a company like Finjan that has only two court victories, three recent licensing arrangements, and no recurring revenues. 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 (RMBS), and the upstarts that trade on events and potential. We can see from the table below, this ranges from Pendrell (PCO) with an negative $25 million enterprise value, to Interdigital (IDCC) with an enterprise value of $1.4 billion and $380 million in sales expected this year. On average, the companies with revenues trade at an average of 2.3X 2016 estimated calendar revenues.

Using a valuation based on enterprise value to sales is easier for unprofitable companies. If Finjan were to generate $54 million in sales in 2017, we could see the market putting a 2.3 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 $5.79 per share by 2017, assuming it achieves our estimated revenue levels in 2016 from licensing and consulting in addition to a settlement received from Blue Coat if the appeal is won.

| Company | Ticker | Revenue 2016E | Revenue LTM | EV/ EBITDA | EBIDTA Margin | Enterprise Value / Sales 2016E | Enterprise Value / Sales LTM | Included in Average? | Enterprise Value |
|---|---|---|---|---|---|---|---|---|---|
| Acacia Research | ACTG | $104 | $125 | 8.7x | 36% | 0.5x | 0.4x | y | $48 |
| Interdigital | IDCC | $380 | $441 | 5.6x | 58% | 3.8x | 3.2x | y | $1,430 |
| Inventergy Global | INVT | $9 | $5 | -4.4x | -100% | 2.4x | 4.3x | y | $21 |
| Marathon | MARA | $37 | $13 | -4.7x | -104% | 1.7x | 4.6x | y | $61 |
| Neonode | NEON | $24 | $10 | -9.5x | -68% | 3.7x | 9.0x | y | $89 |
| Network-1 | NTIP | NA | $12 | 4.4x | 45% | NA | 2.3x | n | $27 |
| Parkervision | PRKR | $11 | $6 | -0.7x | NM | 2.6x | 5.1x | y | $28 |
| Pendrell | PCO | $36 | $44 | -28.9x | 29% | -0.7x | -0.6x | y | -$25 |
| Rambus | RMBS | $317 | $296 | 12.6x | 34% | 4.3x | 4.6x | y | $1,350 |
| RPX | RPXC | $337 | $292 | 1.2x | 72% | 0.8x | 0.9x | y | $262 |
| Tessera | TSRA | $260 | $273 | 5.8x | 73% | 4.4x | 4.2x | y | $1,150 |
| Unwired Planet | UPIP | $5 | $5 | -1.6x | -814% | 11.0x | 12.7x | n | $57 |
| VirnetX | VHC | $150 | $2 | -5.9x | NM | 1.5x | 137.0x | n | $218 |
| Vringo | VRNG | NA | $0 | -1.1x | NM | NM | 19.7x | n | $7 |
| Wi-Lan | WILN | $90 | $103 | 2.6x | 72% | 2.1x | 1.8x | y | $190 |
| **Average** | | | | **-1.1x** | **9%** | **2.3x** | **3.4x** | | **$419** |

| | Revenue 2017E | Revenue LTM | EBITDA Margin | Enterprise Value / Sales 2017E | Enterprise Value / Sales LTM | Valuation Range Low | Valuation Range High |
|---|---|---|---|---|---|---|---|
| **Finjan** | **$54** | **$5** | **-243%** | **2.3x** | **3.4x** | **$16** | **$125** |

| | |
|---|---|
| Conclusion of Enterprise Value | **$124,665,753** |
| Market Value | **$131,865,753** |
| Shares Outstanding | 22,764,286 |
| Price per Share | **$5.79** |

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. However Proofpoint and Sophos are past Markman and nearing trial so rates will be much higher. Blue Coat went through the full trial and was awarded $40 million. If this is appealed and the company wins on appeal, the sum will be higher as interest and royalties for additional products sold during the litigation process is added on. Looking at the rest of the companies we can derive revenues over $240 million adding actuals and for similar licensing at the same stage as Websense. Judgments, of course, may be all over the place.

| | 2015 Revenues | % Relevant | License | Judgment |
|---|---|---|---|---|
| **Estimated** | | | | |
| FireEye | $623 | 30% | $18.7 | |
| Proofpoint | 265 | 50% | 13.3 | |
| Sophos | 447 | 25% | 11.2 | |
| Symantec (2 segments) | 4,200 | 30% | 126.0 | |
| Palo Alto Networks | 1,100 | 27% | 30.0 | |
| Total potential | | | 199.1 | |
| | | | | |
| **Actual** | | | | |
| Blue Coat | | | | 40.0 |
| Websense | DK | DK | 8.0 | |
| Avast Software | DK | DK | 3.0 | |
| Undisclosed | DK | DK | 3.7 | |
| Total actual | | | 14.6 | |
| | | | | |
| **TOTAL** | | | $240.7 | 40.0 |
| Plus Blue Coat | | | **280.7** | |

**Cybersecurity companies**

The new consulting venture will have different peer comparables where valuations are much higher. For example, FireEye bought Madiant for $1 billion or approximately 7 times sales. Another comparable would be root9b, a company with $141 million enterprise value and a run rate of $38 million, or 3.7 times.

## RISKS

- The company has a limited track record with which to set expectations.
- 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.

# INCOME STATEMENT

| In Thousands | 2015 Q1 | 2015 Q2 | 2015 Q3 | 2015 Q4 | 2016E Q1E | 2016E Q2E | 2016E Q3E | 2016E Q4E | 2013R | 2014 | 2015 | 2016E | 2017E |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Websense | $0 | $0 | $0 | $0 | $2,000 | $0 | $0 | $0 | $0 | $4,998 | $0 | $2,000 | $1,000 |
| Other licenses | 0 | 700 | 0 | 3,975 | 300 | 0 | 2,650 | 0 | 0 | 0 | 4,675 | 2,950 | 10,000 |
| CybeRisk Security Solutions | 0 | 0 | 0 | 12 | 100 | 400 | 550 | 1000 | 0 | 0 | 12 | 2,050 | 2,500 |
| Blue Coat | | | | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 40,400 |
| **Total Revenues** | **0** | **700** | **0** | **3,987** | **2,400** | **400** | **3,200** | **1,000** | **0** | **4,998** | **4,687** | **7,000** | **53,900** |
| Cost of revenues | 0 | 60 | 0 | 754 | 40 | 28 | 224 | 70 | 0 | 800 | 814 | 1,320 | 12,350 |
| Gross profit | 0 | 640 | 0 | 3,233 | 2,360 | 372 | 2,976 | 930 | 0 | 4,198 | 3,873 | 5,680 | 41,550 |
| Gross Margin | | 91% | | 81% | 98% | 93% | 93% | 93% | | 84% | 83% | 81% | 77% |
| **Operating Expenses:** | | | | | | | | | | | | | |
| SG&A | 4,205 | 4,413 | 4,490 | 4,254 | 4,500 | 4,600 | 4,600 | 4,600 | 6,225 | 13,813 | 17,362 | 18,300 | 19,000 |
| R&D | | 146 | 206 | 39 | 50 | 50 | 50 | 50 | 0 | 0 | 391 | 200 | 200 |
| Transaction costs | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 790 | 0 | 0 | 0 | 0 |
| Total operating expenses | 4,205 | 4,559 | 4,696 | 4,293 | 4,500 | 4,650 | 4,650 | 4,650 | 7,015 | 13,813 | 17,753 | 18,500 | 19,200 |
| Operating Income | (4,205) | (3,919) | 1,596 (4,696) | (1,060) | (2,140) | (4,278) | (1,674) | (3,720) | (7,015) | (9,615) | (13,880) | (12,820) | 22,350 |
| **Other Income** | | | | | | | | | | | | | |
| Gain on settlements | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1,000 | 1,000 | 0 | 0 | 0 |
| Other income | (1) | 1,271 | 0 | 1 | 0 | 0 | 0 | 0 | 9 | 0 | 1,271 | 0 | 0 |
| Interest income | 9 | 7 | (4) | 0 | 0 | 0 | 0 | 0 | 153 | 90 | 12 | 60 | 200 |
| Total other income | 8 | 1,278 | (4) | 1 | 0 | 0 | 0 | 0 | 1,162 | 1,090 | 1,283 | 60 | 200 |
| Loss before taxes | (4,196) | (2,634) | (4,700) | (1,060) | (2,140) | (4,278) | (1,674) | (3,720) | (5,853) | (8,525) | (12,597) | (12,760) | 22,550 |
| Income taxes | 5 | 0 | 0 | 0 | - | - | - | - | (260) | 5 | 5 | 0 | 7,886 |
| Tax rate | | | | | 0% | 0% | 0% | 0% | | | | 0% | 35% |
| Net Income | (4,201) | (2,634) | (4,700) | (1,060) | (2,140) | (4,278) | (1,674) | (3,720) | (5,593) | (8,520) | (12,602) | (12,760) | 14,664 |
| **Net Income Per Share:** | | | | | | | | | | | | | |
| **EPS** | **($0.19)** | **($0.12)** | **($0.21)** | **($0.05)** | **($0.09)** | **($0.19)** | **($0.07)** | **($0.16)** | **($0.26)** | **($0.38)** | **($0.56)** | **($0.56)** | **$0.65** |
| Diluted EPS | ($0.19) | ($0.12) | ($0.19) | ($0.05) | ($0.09) | ($0.19) | ($0.07) | ($0.16) | ($0.26) | ($0.38) | ($0.52) | **($0.52)** | **$0.59** |
| Avg Shares Outstanding | 22,409 | 22,519 | 22,562 | 22,641 | 22,700 | 22,750 | 22,800 | 22,850 | 21,602 | 22,404 | 22,549 | 22,775 | 22,417 |
| Diluted Shares | 24,315 | 24,435 | 24,468 | 24,560 | 24,619 | 24,669 | 24,719 | 24,769 | 23,521 | 24,209 | 24,444 | 24,694 | 24,719 |
| Stock-based Comp | 355 | 100 | 187 | 124 | 191.5 | 191.5 | 191.5 | 191.5 | 1189 | 1448 | 766 | 766 | 766 |
| Non-GAAP Income | (3,846) | (2,534) | (4,513) | (936) | (1,949) | (4,087) | (1,483) | (3,529) | (4,404) | (7,072) | (11,836) | (11,994) | 15,430 |
| Non-GAAP EPS | **($0.17)** | **($0.11)** | **($0.20)** | **($0.04)** | **($0.09)** | **($0.18)** | **($0.07)** | **($0.15)** | **($0.20)** | **($0.32)** | **($0.52)** | **($0.53)** | **$0.69** |

## BALANCE SHEET

| $ in Thousands | Dec. 31, 2015 | Sept 30, 2015 | % Change |
|---|---|---|---|
| **Current assets:** | | | |
| Cash and cash equivalents | $6,101 | $7,156 | -15% |
| Accounts receivable, net | - | - | |
| Prepaid expenses and other current assets | 322 | 241 | 34% |
| **Total current assets** | 6,423 | 7,397 | -13% |
| | | | |
| Property and equipment, net | 257 | 295 | -13% |
| Investments | 2195 | 1945 | 13% |
| Other long term assets | 325 | 301 | 8% |
| | | | |
| **Total Assets** | 9,200 | 9,938 | -7% |
| | | | |
| **Current Liabilities:** | | | |
| Accounts payable | 2,220 | 2,148 | 3% |
| Accounts payable - related parties | 17 | 8 | 113% |
| Accrued expenses | 450 | 437 | 3% |
| Accrued income taxes | 9 | 8 | 13% |
| Other current liabilities | 32 | 0 | |
| **Total current liabilities** | 2,728 | 2,601 | 5% |
| | | | |
| Other non-current liabilities | 130 | 65 | 100% |
| Total Liabilities | 2,858 | 2,666 | 7% |
| | | | |
| **Stockholders' Equity** | | | |
| Common stock | 2 | 2 | 0% |
| Additional paid-in capital | 23,946 | 23,817 | 1% |
| Retained earnings | (17,606) | (16,547) | 6% |
| **Total Stockholders' Equity** | 6,342 | 7,272 | -13% |
| Total Liabilities & Stockholders' Equity | $9,200 | $9,938 | -7% |
| | | | |
| Cash per share | $0.27 | $0.32 | -15% |

## CASH FLOW

| | Dec. 31, 2015 | Sept. 30, 2015 | Jun. 30, 2015 | March 31, 2015 |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Net loss | $ (1,059) | $ (4,700) | $ (2,641) | $ (4,202) |
| | | | | |
| **Adjustments to reconcile net loss to net cash used in operating activities:** | | | | |
| Gain on Investment | 0 | 0 | (1,271) | 0 |
| Depreciation and amortization | 15 | 9 | 19 | 7 |
| Loss on disposal of assets | 34 | 0 | 0 | 0 |
| Stock-based compensation | 124 | 187 | 100 | 355 |
| Deferred tax liability | 0 | 0 | 0 | 0 |
| | | | | |
| **Changes in operating assets and liabilities:** | | | | |
| Accounts receivable | 0 | 0 | 55 | 1,961 |
| Inventories | 0 | 0 | 0 | 0 |
| Prepaid expenses and other current assets | (81) | (23) | (153) | 47 |
| Other long-term assets | (24) | (70) | (231) | 0 |
| Accrued expenses | 13 | (361) | (44) | 42 |
| Accounts payable | 72 | 669 | 152 | (348) |
| Accounts payable - related parties | 9 | 0 | (10) | (82) |
| Other assets | 97 | 65 | 231 | (231) |
| Accrued income taxes | 1 | 0 | 0 | 8 |
| Total Adjustments | 87 | 280 | 0 | 1,397 |
| Net cash used in operating activities | 260 | 476 | (1,152) | (2,443) |
| | | | | |
| **Cash flows from investing activities:** | | | | |
| Purchases of property and equipment | (11) | (54) | (133) | (77) |
| Proceeds from investment | 0 | 0 | 826 | 0 |
| Purchase of additional investment | (250) | (500) | 0 | 0 |
| Net cash provided by (used in) investing activities | (261) | (554) | 693 | (77) |
| **Proceeds from exercise of stock options** | | | | |
| Proceeds from exercise of stock options | 97 | 29 | 0 | 20 |
| Net cash provided by financing activities | 97 | 29 | 0 | 20 |
| Net decrease in cash and cash equivalents | 96 | (49) | (3,100) | (2,500) |
| Cash and cash equivalents - beginning | 7,156 | 11,905 | 15,005 | 17,505 |
| Cash and cash equivalents - ending | 6,101 | 7,156 | 11,905 | 15,005 |
| | | | | |
| Cash paid for income taxes | 7 | 0 | 0 | 0 |
| | | | | |
| **Non-cash investing and financing activities** | | | | |
| Additional investment held by investee | 0 | 0 | 445 | 0 |
| Purchase of property and equipment in exchange for finance agreement | 0 | 0 | 0 | 0 |
| | | | | |
| **Operating cash Flow** | **(886)** | **(4,504)** | **(3,793)** | **(3,840)** |
| Free cash flow | (1,125) | (4,950) | (2,834) | (3,763) |

## STOCK PRICE CHART



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