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Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

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Finjan Holdings (FNJN-NASDAQ)

FNJN: Finjan Reports Q1 EPS of $0.93 and Starts to Pay Taxes

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.

Current Price (05/09/18)	$2.83
Valuation	**$8.33**

OUTLOOK

With approximately $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.

SUMMARY DATA

52-Week High	**$3.80**
52-Week Low	**$1.76**
One-Year Return (%)	**24.7**
Beta	**-0.6**
Average Daily Volume (share)	**209,144**
Shares Outstanding (mil)	**28**
Market Capitalization ($mil)	**$78**
Short Interest Ratio (days)	**1**
Institutional Ownership (%)	**37**
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	**6.2**
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	$0.93 A	-$0.09 E	-$0.03 E	$0.10 E	$0.93 E
2019					$0.80 E

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WHAT'S NEW

Last night Finjan released its 10Q, which provided more information that what the company reported in its last conference call. Before it revealed its revenues and some other financial information, but did not report net income, EPS or information past the operating income line. Now we see that the company has gone from an untaxed entity to being fully taxed on a federal and state level. While we did know that the company had $42.3 million in operating income, what was not reported, was another $2.5 million in other expenses and $11.5 million in income taxes paid. These taxes were not paid in cash, but a cash payment will be due in June. After accretion for preferred of $925,000, net income to common shareholders for the quarter was $29.2 million or **$0.93 per share on a fully diluted basis**. This is compared with net income of $16 million and $0.69 per share in Q1 2017. In Q1 2018 the fully diluted share count was 30.3 million up 30% from a year ago.

Updating Forecasts

For 2018 we are reducing EPS estimates strictly due to Q1 results, the 28.3% tax rate and fully diluted shares of 30.3 million. Revenues stay the same. Based on that, we are lowering our EPS estimate for 2018 to $0.93 per share. In 2019 EPS is lowered to $0.80 per share.

Other News

Today it announced a $10 million stock buy back with no time limit and no specific requirements.

On March 3, 2018, Finjan filed a suit against Check Point Software Technologies, Inc. (NASDAQ:CHKP) in the U.S. District Court for the Northern District of California (Case No. 5:18-cv-02621.) Check Point is a $15.5 billion company based in Israel. In 2017 it had $1.9 billion in sales. Finjan alleges that certain Check Point products infringe at least one or more of the following Finjan patents: U.S. Patent Nos. 6,154,844, 6,965,968, 7,418,731, 7,647,633, 8,079,086, 8,141,154, and 8,677,494.

These include Check Point's:

- Next Generation Firewalls and Security Gateways for Cloud, Data Center, Midsized and Enterprise, Small Business, Consumer, and Home Office;
- CloudGuard products; Endpoint Protection products; Advanced Threat Prevention products, including with Sandblast technology, for Network Security, Endpoint Protection, and Mobile Threat Prevention;
- ZoneAlarm products;
- Threat Intelligence;
- ThreatCloud;
- Security Management products, including Smart-1 appliances; and Infinity, including R80.10.

Finjan is seeking a judgment of infringement, a preliminary and permanent injunction, past damages no less than a reasonable royalty, attorneys' fees, pre- and post-judgment infringement, and any other relief deemed proper by the Court.

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 $78 million and a current **enterprise value of approximately $12 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**
Check Point Software ($1.9 billion)	United States District Court for the Northern District of California on May 3, 2018	Initiated May 3, 2018.	**6,154,844, 6,965,968, 7,418,731, 7,647,633, 8,079,086, 8,141,154, 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 near $66 million, no debt and no preferred stock outstanding. A market value of $78 million then equates to a current enterprise value of $12 million. At the end of March, the company had $2.90 per share in cash.

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

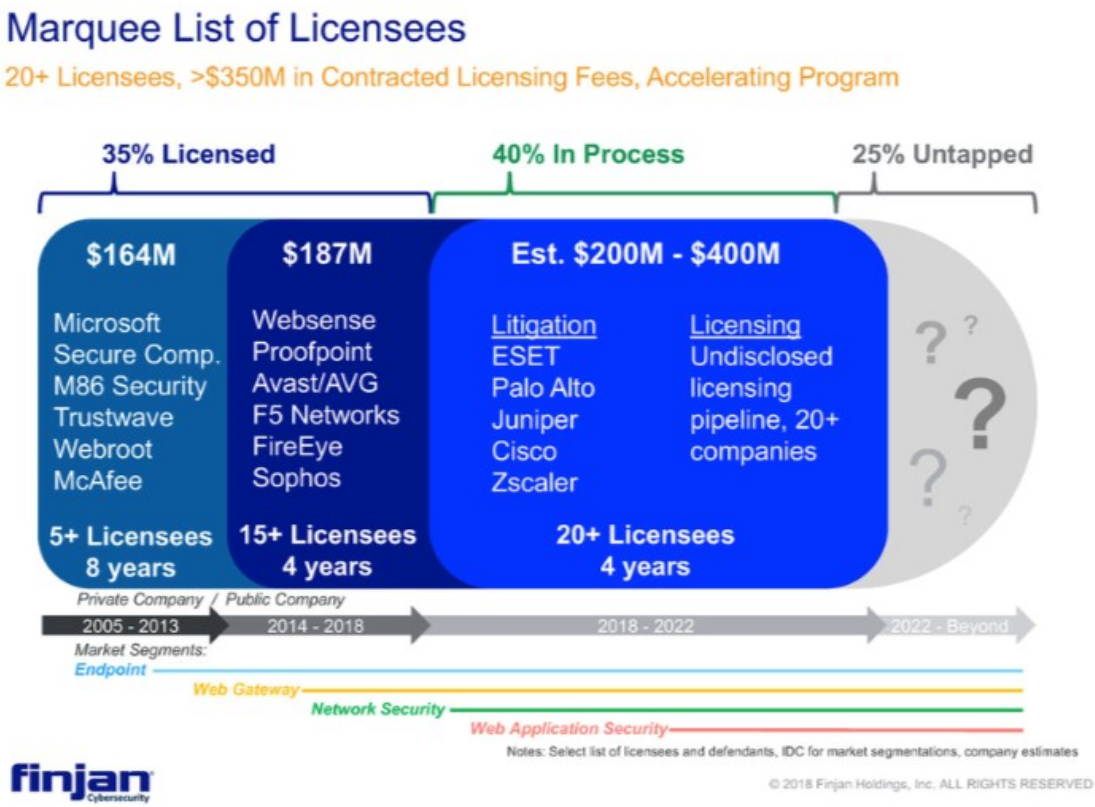
upstarts that trade on events and potential. We can see from the table below, this ranges from Pendrill (PCO) with -$28 million enterprise value, to Interdigital (IDCC) with an enterprise value of $1.9 billion and $282 million in sales expected this year. On average, the companies with revenues trade 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 2018E	LTM	EV/ EBITDA	EBIDTA Margin	Enterprise Value / Sales 2018E	LTM	Included in Average?	Enterprise Value
Acacia Research	ACTG	$67	$65	-25.7x	-2%	0.5x	0.5x	y	$31
Interdigital	IDCC	$282	$533	4.7x	67%	6.6x	3.5x	y	$1,870
Inventergy Global	INVT	NA	$1	-0.6x	-191%	NA	0.9x	n	$1
Marathon	MARA	$33	$1	-3.0x	-1915%	0.1x	8.5x	y	$4
Neonode	NEON	$12	$10	-4.9x	-44%	2.0x	2.3x	y	$24
Network-1	NTIP	NA	$16	0.4x	149%	NA	0.7x	n	$11
Parkervision	PRKR	$43	$0	-1.0x	-17200%	0.4x	183.0x	y	$18
Pendrell	PCOA	NA	$43	-1.1x	71%	NA	-0.6x	n	-$28
Rambus	RMBS	$399	$393	12.8x	8%	3.6x	3.7x	y	$1,440
RPX*	RPXC	$278	$322	1.9x	63%	1.4x	1.2x	y	$400
VirnetX	VHC	NA	$2	-13.6x	-858%	NA	124.6x	n	$193
Quarterhill	QTRH	$106	$135	1.7x	45%	1.0x	0.8x	y	$104
Average				**-1.7x**	**-2372%**	**2.0x**	**25.4x**		**$486**

* to be acquired for $555 million

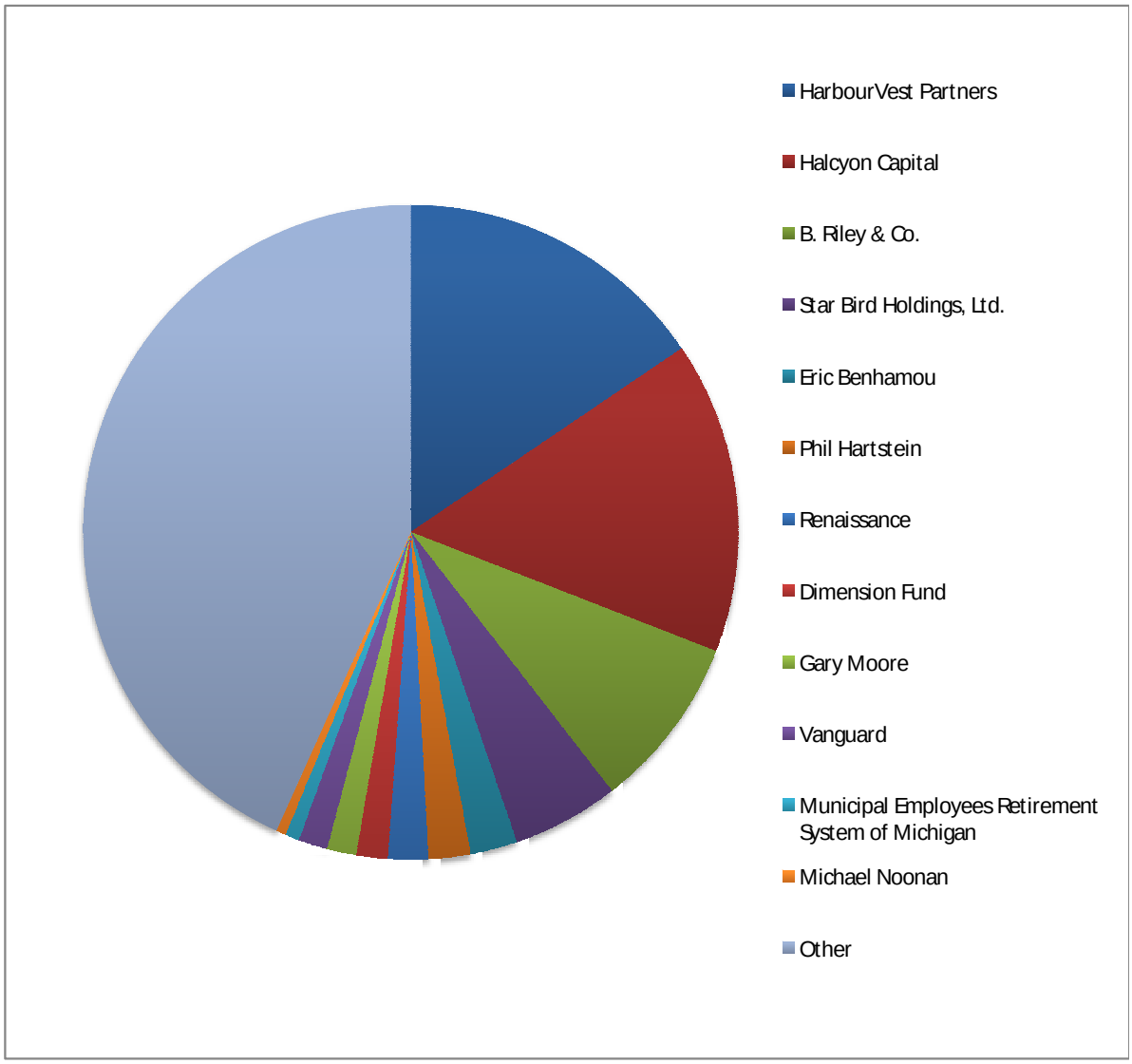
The company believes that although the percent of the market left to be captured declines, the market continues to grow at a rapid pace and potential revenues may not be shrinking. In other words, its TAM as a percent may be smaller, but the dollars involved are the same or increasing as the cybersecurity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



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

	2017				2018E							
In Thousands	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2E**	**Q3E**	**Q4E**	**2016**	**2017**	**2018E**	**2019E**
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	7,982	4,800	4,800	4,800	14,430	27,946	22,382	19,200
R&D	153	334	330	656	462	350	400	500	570	1,473	1,712	2,000
Avira license fee		0	325	325	325	325	325	325		650	1,300	1,300
Total operating expenses	4,690	4,969	5,767	14,643	8,769	5,475	5,525	5,625	15,000	30,069	25,394	22,500
Operating Income	16,274	(2,885)	(5,767)	26,128	43,231	(2,645)	(895)	2,930	350	14,407	42,796	33,750
Other Income												
Change in fair val of warrant liab	0	0	1,530	687	(2,106)	0	0	0	0	2,217	(2,106)	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	(384)	100	100	100	1	27	(84)	0
Total other income	0	0	1,530	714	(2,490)	100	100	100	1	2,244	(2,190)	0
Pretax profit	16,274	(2,885)	(4,237)	26,155	40,741	(2,545)	(795)	3,030	351	16,651	40,606	33,750
Income taxes	324	(56)	0	(6,428)	11,523	-	-	(32)	0	(6,160)	11,491	9,450
Tax rate	2%	2%	0%	-25%	28.3%	28%	28%	28%	0%	-37%	28%	28%
Net Income	15,950	(2,829)	(4,237)	32,583	29,218	(2,545)	(795)	3,062	351	22,811	29,115	24,300
Accretion of Preferred Stock	-	(3,925)	-	(957)	(925)	-	-	-	(6,789)	(4,882)	(925)	-
Net inc. to common shareholders	15,950	(6,754)	(4,237)	31,626	28,293	(2,545)	(795)	3,062	(6,438)	17,929	28,190	24,300
Net Income Per Share:												
EPS	$0.69	($0.29)	($0.16)	$1.14	$1.02	($0.09)	($0.03)	$0.10	($0.28)	$0.71	$1.01	$0.80
Diluted EPS	**$0.69**	**($0.29)**	**($0.16)**	**$1.14**	**$0.93**	**($0.09)**	**($0.03)**	**$0.10**	**($0.28)**	**$0.68**	**$0.93**	**$0.80**
Avg Shares Outstanding	23,133	23,257	27,328	27,707	27,715	27,732	27,832	27,932	22,837	25,354	27,803	28,000
Diluted Shares	23,217	23,257	27,328	27,707	30,284	27,732	27,832	30,300	22,920	26,270	30,300	30,300
					30.4%							
Stock-based Comp	209	210	222	202	318	200	200	200	872	843	918	918
Adj Non-GAAP Income	16,159	(6,544)	(5,545)	6,284	28,611	(2,345)	(595)	3,262	(5,566)	10,354	29,108	25,218
Non-GAAP EPS	**$0.70**	**($0.28)**	**($0.20)**	**$0.23**	0.94	**($0.08)**	**($0.02)**	**$0.12**	**($0.24)**	**$0.39**	**$0.96**	**$0.83**

BALANCE SHEET

Since the March quarter ended, it also paid $13 million due to lawyers on the Symantec litigation team and received $1.3 million from Carbon Black, leaving $68.7 million or $2.52 per share. The company paid no cash taxes in Q1 2018, but will have to pay some in the June quarter based on Q1. It has used up all its NOLS.

$ in Thousands	Mar 31, 2018	Dec 31, 2017	Qtr-Qtr % Change	Mar. 31, 2017	Yr-Yr % Change
Current assets:					
Cash and cash equivalents	$80,440	$41,169	95%	$26,434	204%
Accounts receivable, net	2,550	2,606	-2%	2	127400%
Prepaid expenses and other current assets	681	765	-11%	283	141%
Total current assets	83,671	44,540	88%	26,719	213%
Property and equipment, net	128	140	-9%	191	-33%
Investments	3,168	2,618	21%	2,618	21%
Intangible assets, net	5,950	7,748	-23%	0	NM
Other long term assets	3,619	0	NM	322	1024%
Deferred income taxes, non-current	0	6,201	-100%	0	0%
Total Assets	96,536	61,247	58%	29,850	223%
Current Liabilities:					
Accounts payable	16,107	4,646	247%	5,003	222%
Accounts payable - related parties	25	112	-78%	23	9%
Accrued expenses	3,102	1,303	138%	1,049	196%
Accrued income taxes	8,953	13	68769%	327	2638%
Warrant liability	3,202	1,096	192%	0	NM
Other current liabilities	1,021	1,086	-6%	20	5005%
Total current liabilities	32,410	8,256	293%	6,422	405%
Other non-current liabilities	0	0	0%	119	-100%
Other liabilities, non-current - patent	4,438	5,500	-19%	0	NM
Total Liabilities	36,848	13,756	168%	6,541	463%
Series A Preferred Stock	0	0	0%	6,264	-100%
Series A-1 Preferred Stock	0	18,965	-100%	0	0%
Stockholders' Equity					
Common stock	3	3	0%	2	50%
Additional paid-in capital	22,361	22,968	-3%	18,349	22%
Retained earnings	37,324	5,555	572%	(1,306)	-2958%
Total Stockholders' Equity	59,688	28,526	109%	17,045	250%
Total Liabilities & Stockholders' Equity	$96,536	$61,247	58%	$29,850	223%
Cash per share	$2.66	$1.49	79%	$1.16	128%
Working Capital	$51,261	$36,284	41%	$20,297	153%
Quick ratio	2.6	5.4	-52%	4.2	-38%
Debt/TA	0%	31%	-100%	21%	-100%

CASH FLOW

	Mar. 31, 2018	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
Cash flows from operating activities:											
Net income	$ 29,218	$ 22,811	$ 13,928	$ (4,237)	$ (2,830)	$ 15,950	$ 350	$ 3,916	$ (3,302)	$ 899	$ (1,163)
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	0
Depreciation and amortization	329	815	558	232	13	12	63	(40)	15	13	14
Change in fair value of warrant liability	2,106	(2,217)	(687)	(1,530)	0	0	0	0	0	0	0
Deferred income taxes	0	(6,201)	(6,201)	0	0	0	0	0	0	0	0
Loss on disposal of assets	0	0	0	0	0	0	0	0	0	0	0
Stock-based compensation	318	843	202	222	210	209	872	(764)	229	311	142
Changes in operating assets and liabilities:											
Accounts receivable	2,606	(1,540)	(2,606)	9	(7)	1,064	(1,066)	0	0	0	0
Prepaid expenses and other current assets	84	(152)	100	(132)	(128)	8	30	(228)	4	95	38
Deferred tax asset, non-current	2,582										
Other long-term assets	0	0	0	1	(1)	0	4	(2)	(1)	1	0
Accrued expenses	1,799	(529)	799	137	(682)	(783)	1,382	(5,030)	(665)	2,517	(4)
Accounts payable	11,461	2,788	1,815	(727)	(1,445)	3,145	(362)	2,009	936	(985)	(39)
Accounts payable - related parties	(87)	24	99	(12)	2	(65)	71	2	(5)	(3)	4
Other assets	0	0	0	0	0	0	0	0	0	0	0
Other liabilities	355	(66)	(5)	(46)	(2)	(13)	(10)	25	(10)	3	(31)
Accrued income taxes	8,940	10	(228)	0	(86)	324	(6)	0	0	0	0
Total Adjustments	27,740	535	(26)	(770)	(2,349)	3,680	43	(3,224)	259	1,628	(32)
Net cash used in operating activities	59,711	16,586	7,774	(6,083)	(4,956)	19,851	1,328	(112)	(2,799)	2,851	(1,039)
Cash flows from investing activities:											
Purchase of intangible assets	0	(2,000)	0	(2,000)	0	0	0	0	0	0	0
Purchases of property and equipment	0	0	0	0	0	0	(9)	0	(9)	0	0
Proceeds from investment	0	127	0	0	0	127	0	0	0	0	0
Purchase of additional investment	(550)	0	0	0	0	0	(550)	500	(300)	(250)	0
Net cash provided by (used in) investing activities	(550)	(1,873)	0	(2,000)	0	127	(559)	500	(309)	(250)	0
Cash flows from financing activities											
Proceeds from common share offering	0	11,952	1	1,566	10,385	0	0	0	0	0	0
Proceeds for sale of Preferred A-1, net	0	14,375	0	0	14,375	0	0	0	0	0	0
Proceeds for sale of Preferred A, net	0	0	0	0	0	0	9,490	(18,980)	0	9,490	0
Redemption Series A Preferred shares	(19,890)	(13,778)	(1)	0	(6,555)	(7,222)	(2,793)	0	(2,593)	0	0
Proceeds from exercise of stock options	0	229	0	28	201	0	111	(152)	35	76	0
Net cash provided by financing activities	(19,890)	12,778	0	1,594	18,406	(7,222)	6,808	(19,132)	(2,558)	9,566	0
Net decrease in cash and cash equivalents	39,271	27,491	7,774	(6,489)	13,450	12,756	7,577	(18,744)	(5,666)	12,167	(1,039)
Cash and cash equivalents - beginning	41,169	13,678	33,395	39,884	17,229	(13,678)	6,101	11,563	17,229	5,062	6,101
Cash and cash equivalents - ending	80,440	41,169	41,169	33,395	39,884	17,229	13,678	13,678	11,563	17,229	5,062
Cash paid for income taxes	0	30	30	0	0	0	0	7	0	0	0
Non-cash investing and financing activities											
Additional investment held by investee	0	0	0	0	0	0	0	0	0	0	0
Accretion of preferred stock to redemption value	925	4,882	957	3,925	0	0	6,789	(10,960)	1,309	5,480	0
Series A-1 warrant liability	0	3,313	0	3,313	0	0	0	0	0	0	0
Changes in A/R, adoption of ASC-606	2,550	0	0	0	0	0	0	0	0	0	0
Purchase of property and equipment in exchange for finance agreement	0	6,500	6,500	0	0	0	0	0	0	0	0
Operating cash Flow	**31,971**	**24,469**	**14,688**	**(3,783)**	**(2,607)**	**16,171**	**1,285**	**3,112**	**(3,058)**	**1,223**	**(1,007)**
Free cash flow	31,421	24,596	14,688	(3,783)	(2,607)	16,298	744	3,612	(3,349)	973	(1,007)

HISTORICAL STOCK PRICE



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