

FINJAN HOLDINGS, INC.  
Form 10-Q  
November 10, 2014

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 10-Q

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(Mark One)

☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2014

or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-33304

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FINJAN HOLDINGS, INC.  
(Exact name of registrant as specified in its charter)

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Delaware  
(State or other jurisdiction of  
incorporation or organization)

20-4075963  
(I.R.S. Employer  
Identification No.)

122 East 42nd Street, Suite 1512  
New York, New York,  
(646) 755-3320

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

|                         |                                                                        |                           |                                     |
|-------------------------|------------------------------------------------------------------------|---------------------------|-------------------------------------|
| Large accelerated filer | <input type="checkbox"/>                                               | Accelerated filer         | <input checked="" type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/> (Do not check if a smaller reporting company) | Smaller reporting company | <input type="checkbox"/>            |

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of November 5, 2014, 22,443,552 shares of the registrant's common stock, par value \$0.0001 per share, were outstanding.

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## PART I—FINANCIAL INFORMATION

## Item 1. Financial Statements

## FINJAN HOLDINGS, INC.

## Condensed Consolidated Balance Sheets

(In thousands, except share and per share data)

|                                                                                                                                                  | September 30,<br>2014<br>(Unaudited) | December 31,<br>2013 |
|--------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|----------------------|
| <b>Assets</b>                                                                                                                                    |                                      |                      |
| Current assets:                                                                                                                                  |                                      |                      |
| Cash and cash equivalents                                                                                                                        | \$ 20,390                            | \$ 24,598            |
| Accounts receivable, net                                                                                                                         | 2,134                                | 50                   |
| Inventories                                                                                                                                      | 138                                  | 34                   |
| Prepaid expenses and other current assets                                                                                                        | 195                                  | 150                  |
| Total current assets                                                                                                                             | 22,857                               | 24,832               |
| Property and equipment, net                                                                                                                      | 806                                  | 953                  |
| Intangible assets, net                                                                                                                           | 1,132                                | 1,333                |
| Goodwill                                                                                                                                         | 306                                  | 306                  |
| Investments                                                                                                                                      | 1,000                                | 500                  |
| Other non-current assets                                                                                                                         | 23                                   | 23                   |
| Total Assets                                                                                                                                     | \$ 26,124                            | \$ 27,947            |
| <b>Liabilities and Stockholders' Equity</b>                                                                                                      |                                      |                      |
| Current Liabilities:                                                                                                                             |                                      |                      |
| Accounts payable                                                                                                                                 | \$ 1,733                             | \$ 495               |
| Accounts payable - related parties                                                                                                               | 13                                   | 15                   |
| Accrued expenses                                                                                                                                 | 908                                  | 336                  |
| Accrued income taxes                                                                                                                             | 4                                    | 4                    |
| Other current liabilities                                                                                                                        | 13                                   | 35                   |
| Total current liabilities                                                                                                                        | 2,671                                | 885                  |
| Deferred tax liabilities                                                                                                                         | 33                                   | 39                   |
| Total Liabilities                                                                                                                                | \$ 2,704                             | \$ 924               |
| <b>Commitments and contingencies</b>                                                                                                             |                                      |                      |
| <b>Stockholders' Equity</b>                                                                                                                      |                                      |                      |
| Preferred stock - \$0.0001 par value; 10,000,000 shares authorized; no shares issued and outstanding at September 30, 2014 and December 31, 2013 | -                                    | -                    |

|                                                                                                                                                                               |  |  |           |           |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|-----------|-----------|
| Common stock - \$0.0001 par value; 80,000,000 shares<br>authorized; 22,443,152 and 22,368,453 shares<br>issued and outstanding at September 30, 2014<br>and December 31, 2013 |  |  | 2         | 2         |
| Additional paid-in capital                                                                                                                                                    |  |  | 22,641    | 21,546    |
| Retained earnings                                                                                                                                                             |  |  | 777       | 5,475     |
| Total Stockholders' Equity                                                                                                                                                    |  |  | 23,420    | 27,023    |
| Total Liabilities and Stockholders' Equity                                                                                                                                    |  |  | \$ 26,124 | \$ 27,947 |

See Accompanying Notes to these Condensed Consolidated Financial Statements

## FINJAN HOLDINGS, INC.

## Condensed Consolidated Statements of Operations

(In thousands, except share and per share data)

(Unaudited)

|                                                          | For the Three Months Ended<br>September 30, |            | For the Nine Months Ended<br>September 30, |            |
|----------------------------------------------------------|---------------------------------------------|------------|--------------------------------------------|------------|
|                                                          | 2014                                        | 2013       | 2014                                       | 2013       |
| Revenues                                                 | \$5,375                                     | \$394      | \$6,185                                    | \$592      |
| Cost of revenues                                         | 1,037                                       | 324        | 1,503                                      | 472        |
| Gross profit                                             | 4,338                                       | 70         | 4,682                                      | 120        |
| Operating Expenses:                                      |                                             |            |                                            |            |
| Selling, general and administrative                      | 3,794                                       | 1,449      | 10,481                                     | 3,788      |
| Transaction costs                                        | -                                           | -          | -                                          | 790        |
| Total operating expenses                                 | 3,794                                       | 1,449      | 10,481                                     | 4,578      |
| Income (Loss) from operations                            | 544                                         | (1,379 )   | (5,799 )                                   | (4,458 )   |
| Other Income                                             |                                             |            |                                            |            |
| Gain on settlements, net of legal costs                  | -                                           | -          | 1,000                                      | 1,000      |
| Interest income                                          | 8                                           | 7          | 82                                         | 118        |
| Other income (expense)                                   | (1 )                                        | (4 )       | 16                                         | 13         |
| Total Other Income                                       | 7                                           | 3          | 1,098                                      | 1,131      |
| Income (Loss) before provision<br>for income taxes       | 551                                         | (1,376 )   | (4,701 )                                   | (3,327 )   |
| Provision (benefit) for income taxes                     | (2 )                                        | -          | (3 )                                       | 7          |
| Net Income (Loss)                                        | \$553                                       | \$(1,376 ) | \$(4,698 )                                 | \$(3,334 ) |
| Net Income (Loss) Per Share:                             |                                             |            |                                            |            |
| Basic                                                    | \$0.02                                      | \$(0.06 )  | \$(0.21 )                                  | \$(0.16 )  |
| Diluted                                                  | \$0.02                                      | \$(0.06 )  | \$(0.21 )                                  | \$(0.16 )  |
| Weighted Average Number of<br>Common Shares Outstanding: |                                             |            |                                            |            |
| Basic                                                    | 22,421,749                                  | 22,348,201 | 22,389,811                                 | 21,350,498 |
| Diluted                                                  | 23,035,720                                  | 22,348,201 | 22,389,811                                 | 21,350,498 |

See Accompanying Notes to these Condensed Consolidated Financial Statements

## FINJAN HOLDINGS, INC.

## Condensed Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

|                                                                                | Nine Months Ended<br>September 30, |            |
|--------------------------------------------------------------------------------|------------------------------------|------------|
|                                                                                | 2014                               | 2013       |
| <b>Cash Flows From Operating Activities</b>                                    |                                    |            |
| Net loss                                                                       | \$(4,698 )                         | \$(3,334 ) |
| Adjustments to reconcile net loss to net cash<br>used in operating activities: |                                    |            |
| Depreciation and amortization                                                  | 368                                | 149        |
| Stock-based compensation                                                       | 971                                | 529        |
| Deferred tax liability                                                         | (6 )                               | -          |
| Changes in operating assets and liabilities:                                   |                                    |            |
| Accounts receivable                                                            | (2,084 )                           | 95         |
| Inventories                                                                    | (104 )                             | (1 )       |
| Prepaid expenses and other current assets                                      | (45 )                              | (179 )     |
| Other assets                                                                   | -                                  | (93 )      |
| Accrued expenses                                                               | 572                                | (309 )     |
| Accounts payable                                                               | 1,238                              | (2,338 )   |
| Accounts payable - related parties                                             | (2 )                               | -          |
| Other current liabilities                                                      | (22 )                              | -          |
| Accrued income taxes                                                           | -                                  | (25,325 )  |
| Total Adjustments                                                              | 886                                | (27,472 )  |
| Net Cash Used in Operating Activities                                          | (3,812 )                           | (30,806 )  |
| <b>Cash Flows From Investing Activities</b>                                    |                                    |            |
| Investment in limited partnership venture capital fund                         | (500 )                             | -          |
| Cash acquired through merger with Converted Organics                           | -                                  | 63         |
| Proceeds of notes receivable acquired through merger with Converted Organics   | -                                  | 517        |
| Purchases of property and equipment                                            | (20 )                              | (20 )      |
| Net Cash (Used in) Provided By Investing Activities                            | (520 )                             | 560        |
| <b>Cash Flows From Financing Activities</b>                                    |                                    |            |
| Proceeds from exercise of stock options                                        | 124                                | -          |
| Repayment of loan from Former Parent                                           | -                                  | (33,943 )  |
| Repurchase of common stock                                                     | -                                  | (204 )     |
| Net Cash Provided By (Used in) Financing Activities                            | 124                                | (34,147 )  |
| Net Decrease in Cash and Cash Equivalents                                      | (4,208 )                           | (64,393 )  |
| Cash and Cash Equivalents - Beginning                                          | 24,598                             | 91,545     |
| Cash and Cash Equivalents - Ending                                             | \$20,390                           | \$27,152   |
| <b>Supplemental Disclosures of Cash Flow Information:</b>                      |                                    |            |
| Cash paid during the period for:                                               |                                    |            |
| Income Taxes                                                                   | \$3                                | \$25,325   |
| Non-cash Investing and Financing activities:                                   |                                    |            |

|                                   |     |          |
|-----------------------------------|-----|----------|
| Dividend of investments to Parent | \$- | \$12,784 |
|-----------------------------------|-----|----------|

See Accompanying Notes to these Condensed Consolidated Financial Statements

FINJAN HOLDINGS, INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(UNAUDITED)

NOTE 1 – THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Finjan Holdings, Inc. (the “Company”, or “Finjan Holdings”), a Delaware corporation (formerly Converted Organics, Inc.), has two reportable business segments: a web and network security technology segment focused on licensing and enforcing its technology patent portfolio, operated by its wholly-owned subsidiary Finjan, Inc. (“Finjan”), and an organic fertilizer segment operated by another wholly-owned subsidiary, Converted Organics of California, LLC (“Converted Organics”).

On June 3, 2013, Converted Organics, Inc. entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Finjan. Effective June 3, 2013 and pursuant to the Merger Agreement, a wholly owned subsidiary merged with and into Finjan and Finjan became a wholly-owned subsidiary of Converted Organics, Inc. (the “Merger”). The transaction was accounted for as a reverse acquisition under the acquisition method of accounting for business combinations, with Finjan being treated as the acquiring company in the Merger for accounting purposes. Accordingly, the assets and liabilities and the historical operations that are reflected in the Finjan Holdings condensed consolidated financial statements are those of Finjan and are recorded at the historical cost basis of Finjan. The results of operations of the acquired Converted Organics business have been included in the condensed consolidated statements of operations since the date of the Merger.

Unless otherwise indicated or the context otherwise requires, references to “Finjan Holdings,” or “the Company” refer to Finjan Holdings, Inc., and its consolidated subsidiaries. Disclosures relating to the pre-merger business of Finjan Holdings, Inc., unless noted as being the business of Converted Organics prior to the Merger, pertain to the business of Finjan prior to the Merger.

BASIS OF PRESENTATION

These unaudited condensed consolidated financial statements have been prepared following the requirements of the Securities and Exchange Commission (“SEC”), for interim reporting. As permitted under those rules, certain footnotes and other financial information that are normally required by accounting principles generally accepted in the United States of America (“U.S. GAAP”) can be condensed or omitted. The information included in this quarterly report on Form 10-Q should be read in conjunction with the consolidated financial statements and notes thereto of the Company for the year ended December 31, 2013 which were included in the annual report on Form 10-K filed by the Company on March 14, 2014.

In the opinion of management, these condensed consolidated financial statements have been prepared on the same basis as the annual consolidated financial statements and notes thereto of the Company and include all adjustments, consisting only of normal recurring adjustments, considered necessary for the fair presentation of the Company’s financial position and operating results. The results for the three and nine months ended September 30, 2014 are not necessarily indicative of the operating results for the year ending December 31, 2014, for any other interim period or for any future period.

## NOTE 1 – THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## REVENUE RECOGNITION

Revenue is recognized when persuasive evidence of an arrangement exists, delivery of the product or service has occurred, all obligations have been performed pursuant to the terms of the agreement, the sales price is fixed or determinable, and collectability is reasonably assured.

Revenue from the Company's web and network security technology business results from grants of licenses to its patented cybersecurity technology and settlements reached from legal enforcement of the Company's patent rights. The Company does not grant, at this time, technology or software end-user licenses. Revenue is recognized when the arrangement with the licensee has been signed and the license has been delivered and made effective, provided license fees are fixed or determinable and collectability is reasonably assured. The fair value of licenses achieved is recognized as revenue.

The amount of consideration received upon any settlement or judgment is allocated to each element of the settlement based on the fair value of each element. Elements related to licensing agreements and royalty revenues, is recognized as revenue in the consolidated statement of operations. Elements that are not related to license agreements and royalty revenue in nature will be reflected as a separate line item within the Other Income section of the consolidated statements of operations. Elements provided in either settlement agreements or judgments include, the value of a license, legal release, and interest. When settlements or judgments are achieved at discounts to the fair value of a license, the Company allocates the full settlement or judgment, excluding specifically named elements as mentioned above, to the value of the license agreement or royalty revenue under the residual method relative to full license fair value prior to the discount. Legal release as part of a settlement agreement is recognized as a separate line item in the consolidated statements of operations when value can be allocated to the legal release. When the Company reaches a settlement with a defendant, no value is allocated to the legal release since the existence of a settlement removes legal standing to bring a claim of infringement, and without a legal claim, the legal release has no economic value. The element that is applicable to interest income will be recorded as a separate line item in Other Income.

The Company's organic fertilizer operation generates revenues from two sources, namely, product sales and tip fees. Product sales revenue comes from the sale of fertilizer products and is recognized upon delivery. Tip fee revenue is derived from waste haulers who pay the Company "tip" fees for accepting food waste generated by food distributors, such as grocery stores, produce docks and fish markets, and food processors and hospitality venues, such as hotels, restaurants, convention centers and airports. Tip fee revenue is recognized straight-line over the period the fees are earned.

## USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to stock-based compensation expense, impairment of intangible assets, the determination of the economic useful life of property and equipment and intangible assets, income taxes and valuation allowances against net deferred tax assets, and the application of the acquisition method of accounting for business combinations. Management bases its estimates on historical experience or on various other assumptions that it believes to be reasonable under the circumstances. Actual results could differ from those estimates.



## NOTE 1 – THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

## PRINCIPLES OF CONSOLIDATION

The accompanying condensed consolidated financial statements include the accounts of Finjan Holdings and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

## CONCENTRATIONS OF CREDIT RISK

The Company maintains its cash and cash equivalents in financial institutions located in the United States. At times, the Company's cash and cash equivalent balances may be uninsured or in deposit accounts that exceed the Federal Deposit Insurance Corporation insurance limits. The Company has not experienced any losses in such accounts. As of September 30, 2014 and December 31, 2013, substantially all of the Company's cash and cash equivalents are uninsured.

Revenue generated by the Company's largest customers were as follows:

|            | Three months ended<br>September 30, |      | Nine months ended<br>September 30, |      |
|------------|-------------------------------------|------|------------------------------------|------|
|            | 2014                                | 2013 | 2014                               | 2013 |
| Customer A | 93%                                 | -    | 81%                                | -    |
| Customer B | -                                   | 25%  | -                                  | 30%  |
| Customer C | -                                   | 16%  | -                                  | 10%  |
| Customer D | -                                   | 22%  | -                                  | 14%  |

The Company had a balance of \$2 million in accounts receivable due from Customer A as of September 30, 2014. Accounts receivable from these customers as of December 31, 2013 was not material to the condensed consolidated balance sheet.

## NET INCOME (LOSS) PER COMMON SHARE

Basic net income (loss) per common share is based upon the weighted-average number of common shares outstanding. Diluted net income (loss) per common share is based on the weighted-average number of common shares outstanding and potentially dilutive common shares outstanding. Basic and diluted net income (loss) per common share were computed as follows:

|                                                 | Three months ended September<br>30, |            | Nine Months Ended September<br>30, |            |
|-------------------------------------------------|-------------------------------------|------------|------------------------------------|------------|
|                                                 | 2014                                | 2013       | 2014                               | 2013       |
| (In thousands, except share and per share data) |                                     |            |                                    |            |
| Numerator:                                      |                                     |            |                                    |            |
| Net income (loss)                               | \$553                               | \$(1,376 ) | \$(4,698 )                         | \$(3,334 ) |
| Denominator:                                    |                                     |            |                                    |            |
| Weighted-average common shares, basic           | 22,421,749                          | 22,348,201 | 22,389,811                         | 21,350,498 |
| Weighted-average common shares, diluted*        | 23,035,720                          | 22,348,201 | 22,389,811                         | 21,350,498 |
| Net income per common share:                    |                                     |            |                                    |            |
| Basic:                                          | \$0.02                              | \$(0.06 )  | \$(0.21 )                          | \$(0.16 )  |
| Diluted:                                        | \$0.02                              | \$(0.06 )  | \$(0.21 )                          | \$(0.16 )  |

\*The diluted earnings per common share included the effect of 613,972 stock options that are potentially dilutive to earnings per share for the three months ended September 30, 2014 because the exercise price of such options was less than the average market price during the period. There were no stock options that were potentially dilutive for the three months ended September 30, 2013, and the nine months ended September 30, 2014 and 2013 because the Company was in a net loss position.

## NOTE 1 – THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Potentially dilutive common shares from employee equity plans and warrants are determined by applying the treasury stock method to the assumed exercise of warrants and share options and consist of the following:

|                           | September 30,<br>2014 | September 30,<br>2013 |
|---------------------------|-----------------------|-----------------------|
| Stock options             | 1,481,833             | 1,585,476             |
| Restricted stock<br>units | 244,504               | -                     |
| Warrants*                 | -                     | -                     |
| Total                     | 1,726,337             | 1,585,476             |

\*As of September 30, 2014 and December 31, 2013, warrants were exercisable for less than one share of common stock, and therefore anti-dilutive, as a result of the 1-for-10 reverse stock split that the Company effected on November 8, 2011, the 1-for-500 reverse stock split that the Company effected on March 5, 2012, the 1-for-500 reverse stock split that the Company effected on June 3, 2013 and the 1-for-12 reverse stock split the Company effected on August 22, 2013. All outstanding warrants as of September 30, 2014 expired on October 14, 2014.

## RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

On June 19, 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments when the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The adoption of this standard is not expected to have a material impact on the Company’s condensed consolidated financial position and results of operations.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled to when products and services are transferred to customers. ASU 2014-09 will be effective for the Company beginning in its first quarter of 2017. Early adoption is not permitted. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently evaluating the impact of adopting the new revenue standard on its condensed consolidated financial statements.

In April 2014, the FASB issued Accounting Standards Update No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) — Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendment changes the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization’s operations and financial results.



## NOTE 1 – THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, the new guidance requires expanded disclosures about discontinued operations that will provide financial statement users with more information about the assets, liabilities, income, and expenses of discontinued operations. The amendments in this ASU are effective in the first quarter of 2015 for public organizations with calendar year ends. The Company is currently evaluating the impact of adopting the new revenue standard on its condensed consolidated financial statements. The Company does not believe the adoption of this new standard will have a material effect on its consolidated financial statements.

Other recent accounting standards that have been issued or proposed by FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's condensed consolidated financial statements upon adoption.

## NOTE 2 – PRO-FORMA FINANCIAL INFORMATION

As described in Note 1, the Company completed the Merger on June 3, 2013. The following unaudited pro-forma information presents the combined results of operations for the nine months ended September 30, 2013 as if the Merger with Converted Organics, Inc. had been completed on January 1, 2013. The pro-forma financial information includes adjustments to reflect one-time charges and amortization of fair value adjustments in the appropriate pro-forma periods as though the companies were combined as of the beginning of 2013. These adjustments include:

- An increase in depreciation and amortization expense of \$224,000 for the nine months ended September 30, 2013.
- The exclusion of transaction-related expenses of \$790,000 for the nine months ended September 30, 2013.
- The inclusion of stock-based compensation of \$29,000 for the nine months ended September 30, 2013, primarily related to restricted stock issued to one of the directors upon closing of the Merger for services as a member of the Board of Directors of the Company.

The unaudited pro forma results do not reflect operating efficiencies or potential cost savings which may have been implemented after the Merger (in thousands, except per share data):

|                                              | Nine Months Ended<br>September 30,<br>2013 |
|----------------------------------------------|--------------------------------------------|
| Revenue                                      | \$ 2,459                                   |
| Net loss                                     | \$ (4,410 )                                |
| Net loss per common share, basic and diluted | \$ (0.20 )                                 |

## NOTE 3 – BALANCE SHEET COMPONENTS

## INVENTORIES

The components of inventories were as follows:

|                | September<br>30, 2014<br>(In thousands) | December 31, 2013 |
|----------------|-----------------------------------------|-------------------|
| Raw materials  | \$ 37                                   | \$ 13             |
| Finished goods | 101                                     | 21                |
| Inventories    | \$ 138                                  | \$ 34             |

## ACCRUED EXPENSES

The components of accrued expenses were as follows:

|                        | September 30, 2014 | December 31, 2013 |
|------------------------|--------------------|-------------------|
|                        | (In thousands)     |                   |
| Legal                  | \$ 518             | \$ 238            |
| Compensation           | 203                | 78                |
| Other accrued expenses | 187                | 20                |
|                        | \$ 908             | \$ 336            |

## NOTE 4 – COMMITMENTS

## Operating Leases

The Company leases a fertilizer production facility in California. Under the terms of the lease, the Company owes minimum annual rent of \$125,202, payable in monthly installments, unless earlier terminated in accordance with the lease. The annual rental rate is subject to increase on each annual anniversary of the commencement of the immediately preceding rental year by 3% of the rent paid during the immediately preceding year. This lease expires in 2018.

On September 9, 2013, the Company entered into a lease for its new corporate headquarters for a period of five years beginning October 1, 2013. Under the terms of the lease, the Company owes an initial annual rent of \$138,952, payable in monthly installments of \$11,579, unless earlier terminated in accordance with the lease. The annual rental rate is subject to an increase on a cumulative basis after the first lease year at the rate of 2.5% per annum compounded annually.

On March 20, 2014, the Company received the consent of the master landlord for a sublease agreement dated March 10, 2014, pursuant to which the Company subleased office space in Menlo Park, California through November 30, 2017. From the commencement date, the Company owes an initial annual rent of \$164,619, payable in equal monthly installments, unless earlier terminated by either party in accordance with the lease. The annual rental rate is subject to an approximately 3.0% increase at each anniversary of the commencement date during the term.



## NOTE 4 – COMMITMENTS (CONTINUED)

The following table sets forth the Company's aggregate future minimum payments under its operating lease commitments as of September 30, 2014 (in thousands):

|                          |          |
|--------------------------|----------|
| Year ending December 31, |          |
| 2014 (remainder)         | \$ 103   |
| 2015                     | 445      |
| 2016                     | 457      |
| 2017                     | 448      |
| 2018                     | 127      |
|                          | \$ 1,580 |

The Company accounts for its leases under the straight-line method of accounting. Deferred rent payable was \$44,724 as of September 30, 2014 and is included as part of accrued expenses on the condensed consolidated balance sheet. Deferred rent as of December 31, 2013 was not material.

Rent expense for the three and nine months ended September 30, 2014 was \$110,733 and \$295,859, respectively, and \$43,299 and \$76,091 in the comparable periods in 2013.

## Capital Commitments

On November 21, 2013, the Company made a \$5 million commitment to invest in an Israel-based limited partnership venture capital fund seeking to invest in early-stage cyber technology companies. If and when the Company funds the entire amount of the investment, it will be less than a 10% limited partnership interest in which the Company will not be able to exercise control over the fund. Accordingly, the Company has accounted for this investment under the cost method of accounting. As of September 30, 2014, the Company had a \$4 million outstanding capital commitment to the venture capital fund, which can be called any time until 2018.

## NOTE 5 – LICENSE, SETTLEMENT AND RELEASE AGREEMENT

On September 24, 2014, Finjan entered into a license agreement with a third-party against whom Finjan had filed a patent infringement lawsuit. Pursuant to this agreement, the licensee and Finjan also agreed to dismiss the infringement litigation, and each party gave the other a general release for all claims that it might have against the other, known or unknown, based on the actions of either party on or before the date of the settlement.

Under the license agreement, the licensee will pay Finjan a license fee of \$8 million payable in four installments. The first installment of \$3 million was paid upon execution of the agreement and filing of the dismissal with prejudice, the second installment of \$2 million is payable on or before January 16, 2015, the third installment of \$2 million is payable on or before January 15, 2016, and the fourth and final installment of \$1 million is payable on or before January 13, 2017. The Company recognized approximately \$5.0 million of the \$8.0 million license as revenues, as such amount was determined to be fixed and determinable, in accordance with the Company's revenue recognition policy as described in Note 1. The remaining balance of \$3 million under the terms of the agreement will be recognized when payment is due. Each party also agreed to bear its own legal fees and costs. The Company recognized \$0.8 million of legal fees related to this settlement as cost of revenue.

## NOTE 6 – STOCKHOLDERS' EQUITY

## Common Stock

On July 10, 2014 the Company's Stockholders approved an amendment to the Company's charter to decrease the number of authorized Shares of common stock from 1,000,000,000 to 80,000,000.

## Stock-based Compensation

The Company estimates the fair values of stock options using the Black-Scholes option-pricing model. For the three and nine months ended September 30, 2014, and 2013, the assumptions used in the Black-Scholes option-pricing model were as follows:

|                                                                  | Employee Grants<br>Three and Nine Months<br>Ended September 30, |   |      |      | Non-Employee Grants<br>Three and Nine Months<br>Ended September 30, |   |      |      |
|------------------------------------------------------------------|-----------------------------------------------------------------|---|------|------|---------------------------------------------------------------------|---|------|------|
|                                                                  | 2014                                                            |   | 2013 |      | 2014                                                                |   | 2013 |      |
| Weighted-average grant date fair value                           | \$1.46                                                          |   | \$   | 1.44 | \$1.44                                                              |   | \$   | 1.44 |
| Weighted-average Black-Scholes option pricing model assumptions: |                                                                 |   |      |      |                                                                     |   |      |      |
| Volatility                                                       | 49.2                                                            | % | 50.6 | %    | 58.1                                                                | % | 50.6 | %    |
| Expected term (in years)                                         | 6.0                                                             |   | 6.0  |      | 8.6                                                                 |   | 10.0 |      |
| Risk-free rate                                                   | 1.0                                                             | % | 1.0  | %    | 2.4                                                                 | % | 1.8  | %    |
| Expected dividend yield                                          | 0.0                                                             | % | 0.0  | %    | 0.0                                                                 | % | 0.0  | %    |
| Forfeiture rate                                                  | 8.0                                                             | % | 0.0  | %    | 0.0                                                                 | % | 0.0  | %    |

The risk-free interest rate is the United States Treasury rate for the day of the grant having a term equal to the life of the equity instrument. The volatility is a measure of the amount by which the Company's share price has fluctuated or is expected to fluctuate. Since the Company's common stock was not publicly traded at the time of certain grants to employees in 2013, an average of the historic volatility of comparative companies was used. The dividend yield is 0% as the Company has not made any dividend payment and does not anticipate paying a dividend in the near future. An increase or decrease in the risk-free rate or volatility could increase or decrease the fair value of our equity instruments.

On July 10, 2014, the Company's stockholders approved the Finjan Holdings, Inc. 2014 Incentive Compensation Plan (the "2014 Plan") at the annual meeting of stockholders, pursuant to which 2,196,836 shares of common stock are authorized for issuance. Upon shareholder approval of the 2014 Plan, the Company issued a total of 244,504 Restricted Stock Units ("RSUs") and options to purchase an aggregate of 25,000 shares of our common stock that had been previously approved by the Board and the Compensation Committee, subject to stockholder approval of the 2014 Plan, to certain non-executive employees and non-executive directors. For each grant of RSUs, one-third of the RSUs are scheduled to vest on the one-year anniversary of the grant date or employee start date, and an additional 8.33% of the RSUs are scheduled to vest every three calendar months thereafter. For each grant of options, one-fourth of the options are scheduled to vest on the one-year anniversary of the employee start date, and an additional 6.25% of the options are scheduled to vest every three calendar months thereafter.

Upon shareholder approval of the 2014 Plan, the 2013 Global Share Option Plan and Israeli Sub-Plan (the "2013 Plan") was terminated, other than respect to options outstanding under such plan. 1,456,833 options remain outstanding as of September 30, 2014 under the 2013 Plan.

During the nine months ended September 30, 2014, 74,699 options were exercised for cash proceeds of approximately \$124,000, and 93,944 options were forfeited. Approximately \$0.4 million and \$1.0 million of stock-based compensation expense was recorded in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations for the three and nine months ended September 30, 2014, respectively. Approximately \$0.1 million and \$0.5 million of stock-based compensation expense was recorded in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations for the three and nine months period ended September 30, 2013, respectively.

The aggregate intrinsic value of RSU and stock options outstanding and exercisable as of September 30, 2014 and December 31, 2013 was \$1.7 million and \$2.7 million respectively.

As of September 30, 2014, total compensation cost not yet recognized related to unvested stock options under the 2013 Plan; and the 2014 Plan was \$0.7 million and \$1.5 million, respectively, which is expected to be recognized over a weighted-average period of 1.4 years and 2.4 years respectively.

**NOTE 7 – RELATED PARTY TRANSACTIONS**

In the course of business, the Company obtains legal services from a firm in which the Company's executive chairman is a partner. The Company incurred approximately \$38,000 and \$119,000 in legal fees payable to the firm during the three and nine months ended September 30, 2014, respectively, and approximately \$40,000 and \$130,000 during the three and nine months ended September 30, 2013, respectively. As of September 30, 2014 and December 31, 2013, the Company has balances due to this firm amounting to \$12,520 and \$17,000, respectively.

**NOTE 8 – SEGMENT REPORTING**

The Company has two operating segments, namely, a web and network security technology segment and an organic fertilizer segment. The Company's operating segments are each reportable segments because their activities are not economically similar. Presented below are the revenues and net loss for each segment for the three and nine months ended September 30, 2014 and 2013.

|                                      | For the Three Months Ended<br>September 30,<br>2014 |           | For the Nine Months Ended<br>September 30,<br>2014 |           |
|--------------------------------------|-----------------------------------------------------|-----------|----------------------------------------------------|-----------|
|                                      | 2013                                                |           | 2013                                               |           |
|                                      | (in thousands)                                      |           |                                                    |           |
| Revenue:                             |                                                     |           |                                                    |           |
| Web and network security technology  | \$4,998                                             | \$-       | \$4,998                                            | \$-       |
| Organic fertilizer                   | 377                                                 | 394       | 1,187                                              | 592       |
| Total Revenue                        | \$5,375                                             | \$394     | \$6,185                                            | \$592     |
| Net Income (Loss):                   |                                                     |           |                                                    |           |
| Web and network security technology  | \$673                                               | \$(1,243) | \$(4,441)                                          | \$(3,236) |
| Organic fertilizer                   | (120)                                               | (133)     | (257)                                              | (98)      |
| Total Net Income (Loss):             | \$553                                               | \$(1,376) | \$(4,698)                                          | \$(3,334) |
| Other Income:                        |                                                     |           |                                                    |           |
| Web and network security technology  | \$-                                                 | \$(4)     | \$1,005                                            | \$1,013   |
| Organic fertilizer                   | (1)                                                 | -         | 11                                                 | -         |
| Total Other Income                   | \$(1)                                               | \$(4)     | \$1,016                                            | \$1,013   |
| Interest Income:                     |                                                     |           |                                                    |           |
| Web and network security technology  | \$8                                                 | \$7       | \$82                                               | \$119     |
| Organic fertilizer                   | -                                                   | -         | -                                                  | (1)       |
| Total Interest Income                | \$8                                                 | \$7       | \$82                                               | \$118     |
| Depreciation and Amortization:       |                                                     |           |                                                    |           |
| Web and network security technology  | \$4                                                 | \$-       | \$11                                               | \$-       |
| Organic fertilizer                   | 111                                                 | 71        | 357                                                | 149       |
| Total Depreciation and Amortization: | \$115                                               | \$71      | \$368                                              | \$149     |

As of September 30, 2014, total assets held by the web and network security technology segment and organic fertilizer segment were \$25.3 million and \$0.8 million, respectively.

**NOTE 9 – CONTINGENCIES**

Finjan filed a patent infringement lawsuit against FireEye, Inc. in the United States District Court for the Northern District of California on July 8, 2013, as amended on August 16, 2013. Finjan is asserting that FireEye, Inc. is infringing U.S. Patent Nos. 6,154,844, 6,804,780, 7,058,822, 7,647,633, 7,975,305, 8,079,086, and 8,225,408.

Finjan filed a patent infringement lawsuit against Blue Coat Systems, Inc., in the United States District Court for the Northern District of California on August 28, 2013. Finjan is asserting that Blue Coat Systems, Inc. is infringing U.S. Patent Nos. 6,154,844, 6,804,780, 6,965,968, 7,058,822, 7,418,731, and 7,647,633.

Finjan filed a patent infringement lawsuit against Proofpoint, Inc. and Armorize Technologies, Inc. in the United States District Court for the Northern District of California on December 16, 2013. Finjan is asserting that Proofpoint, Inc. and Armorize Technologies, Inc. are infringing U.S. Patent Nos. 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.

Finjan filed a patent infringement lawsuit against Sophos Inc. in the United States District Court for the Northern District of California on March 14, 2014, as amended on April 8, 2014. Finjan is asserting that Sophos Inc. is infringing U.S. Patent Nos. 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.

Finjan filed a patent infringement lawsuit against Symantec Corp. in the United States District Court for the Northern District of California on June 30, 2014, as amended on September 11, 2014. Finjan is asserting that Symantec Corp. is infringing U.S. Patent Nos. 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.

Patent litigation is inherently subject to uncertainties. As such, there can be no assurance that the Company will be successful with its oral arguments in front of the court or in litigating and /or settling all these claims.

The Company is not currently aware of any threatened litigation, inbound cases filed against the Company, or counterclaims that could result in any material adverse impact to the condensed consolidated financial statements as of September 30, 2014.

**NOTE 10 – SUBSEQUENT EVENTS**

Subsequent to September 30, 2014, following discussions among the Board of Directors and management regarding various alternatives with respect to our organic fertilizer business, management recommended to the Board of Directors that the Company sell the organic fertilizer business in order to better focus on the Company's principal line of business, web and network security. On October 6, 2014, the Board of Directors adopted a resolution authorizing management to pursue the sale of Converted Organics. The Company is pursuing the sale of our fertilizer business and Converted Organics will be held for sale until a sale is finalized.

On October 27, 2014 the Board of Directors approved a grant of 130,000 RSUs to an employee of the Company valued at approximately \$0.3 million in the aggregate on the grant date under the 2014 Incentive Compensation Plan. The RSU's vest over a three year period, with one-third of the RSUs vesting on the one year anniversary of the grant date, and the remaining vesting at the rate of 8.33% every three calendar months thereafter.

On October 30, 2014, the Company entered into an Amended and Restated Employment Agreement (the "Agreement") with Shimon Steinmetz (the "Executive"), the Company's Chief Financial Officer and Treasurer. The

Agreement provides that Mr. Steinmetz will continue as the Company's Chief Financial Officer and Treasurer through an initial term ending on November 30, 2014 (the "Initial Term"), subject to extension on a monthly or other basis as mutually agreed between the Company and the Executive, unless earlier terminated. The Agreement provides for a base salary of \$200,000, an annual target bonus of \$50,000 and eligibility for participation in the Company's equity incentive plans and benefits programs. The Company may terminate the Executive at any time, and if such termination is without cause or results from the failure by the Company and the Executive to renew the Executive's employment beyond the Initial Term, the Executive will be entitled to a two-month transition period ending on January 31, 2015. Following such transition period, the Executive will be entitled, in addition to any accrued obligations (including base salary and the 2014 annual target bonus), to a severance payment that includes, among other things, six months of base salary, 50% of the 2015 annual target bonus, accelerated vesting of up to 57,911 options to purchase shares of common stock, which options will remain exercisable until June 30, 2016, and payment of certain expenses.

Subsequent to September 30, 2014, the Company received approximately \$700 in cash proceeds from the exercise of 400 options to purchase the Company's stock.

On November 4, Finjan filed a patent infringement lawsuit against Palo Alto Networks, Inc. in the United States District Court for Northern District of California. Finjan is asserting that Palo Alto Networks, Inc. is infringing upon several of Finjan's patents.

Management has evaluated subsequent events or transactions occurring through the date on which the financial statements were issued.

**Item 2. Management's discussion and analysis of financial condition and results of operations**

The following discussion includes forward-looking statements about the Company's business, financial condition and results of operations, including discussions about management's expectations for the business. These statements include statements regarding our expectations, intentions, beliefs and projections about our future results, performance, prospects and opportunities. These statements can be identified by the fact that they do not relate strictly to historical or current facts or by the use of words such as "anticipate," "believe," "could," "estimate," "expect," "intend," "plan," "project," "potential," "should," "will," "will be," "would," and the negative of these terms and similar expressions, but not an exclusive way of identifying such statements. Readers are cautioned that forward-looking statements are not guarantees of future performance. Our actual results, performance and achievements may differ materially from those expressed in, or implied by, the forward-looking statements contained in this report as a result of various risks, uncertainties and other factors. Important factors that could cause our actual results to differ materially from our expectations include, without limitation, our ability to execute our business plan, the outcome of pending or future enforcement actions, our ability to expand our technology portfolio, the enforceability of our patents, the continued use of our technology in the market, the development of a liquid trading market for our securities and other factors described under Item 1A. "Risk Factors," as set forth in the Company's Annual Report on Form 10-K, and any subsequent quarterly or current reports. The following discussion should also be read in conjunction with the audited and unaudited consolidated financial statements, and unaudited condensed financial statements including the notes thereto, appearing elsewhere in this Quarterly Report on Form 10-Q.

The Company will continue to file annual, quarterly and current reports, proxy statements and other information with the SEC. Forward-looking statements speak only as of the dates specified in such filings. Except as expressly required under federal securities laws and the rules and regulations of the SEC, we do not undertake any obligation to update any forward-looking statements to reflect events or circumstances arising after any such date, whether as a result of new information or future events or otherwise. You should not place undue reliance on the forward-looking statements included in this report or that may be made elsewhere from time to time by us, or on our behalf. All forward-looking statements attributable to us are expressly qualified by these cautionary statements.

**Overview**

We operate two businesses, each of which constitutes a separate reportable segment. Our two reportable segments are: our web and network security technology segment, which we operate through Finjan, and our organic fertilizer segment, which we operate through Converted Organics. The results of operations of our organic fertilizer segment have been included in our assets and liabilities and our historical operations since June 3, 2013, the date Converted Organics, Inc. entered into an Agreement and Plan of Merger (the "Merger Agreement") with Finjan. Effective June 3, 2013 and pursuant to the Merger Agreement, a wholly owned subsidiary merged with and into Finjan and Finjan became a wholly-owned subsidiary of Converted Organics, Inc. (the "Merger").

Our principal line of business is web and network security technology business. On October 6, 2014, the Board of Directors adopted a resolution authorizing management to pursue the sale of Converted Organics. Management is in the process of negotiating the sale and Converted Organics will be held for sale until the sale is finalized.

**Web and Network Security Technology Segment**

We operate our web and network security technology business through Finjan. Through Finjan, we own a portfolio of patents related to software that proactively detects malicious code and thereby protects end users from identity and data theft, spyware, malware, phishing, trojans and other online threats. Founded in 1997, Finjan developed and patented cybersecurity technology that is capable of detecting previously unknown and emerging threats on a real-time, behavior-based basis, in contrast to signature-based methods of intercepting only known threats to

computers, which were standard in the online security industry during the 1990s. As the network, web and endpoint security industries have transitioned to behavior-based detection of malicious code, we believe that our technology is widely used by third parties. We intend to maximize the economic benefits of our technology through further licensing and to broaden our technology and patent holdings through acquisitions and strategic partnerships. We do not grant, at this time, technology or software end-user licenses.

As a core element of our continued patent licensing and enforcement business, our management team, having expertise in technology and IP monetization, alongside early company executives, monitors a number of markets and assesses and observes the adoption of our patented technology in these markets. Our management team, in conjunction with outside legal, technical, and financial experts determine on a case-by-case basis whether or not they believe that Finjan's patented technology is being used. Based on these observations, we continue to believe our patented technologies are relevant in specific technology areas including endpoint/cloud software, web gateway/internet infrastructure, and networking equipment markets. From that basis, we pursue unlicensed entities through licensing, assertion of claims or both.

Since the sale of its hardware and software operations in 2008, Finjan's primary source of income and related cash flows has been the enforcement of its patent rights against unauthorized use and, to a lesser extent, income derived from intellectual property licenses granted to third parties for the use of patented technologies that are owned by Finjan.

Finjan's operating expenses consist primarily of general and administrative expenses. Finjan did not have any full-time employees from 2009 until 2013, shortly after the Merger. Instead, Finjan relied on outside legal counsel, technology consultants and other professionals to conduct operations during that period, some of whom are former investors and executives of Finjan. Accordingly, Finjan's general and administrative expenses consisted primarily of legal fees and other expenses paid to third-party consultants. As of November 5, 2014, we have approximately 18 employees, most of whom joined the Company following the Merger. We intend to hire or engage additional full-time employees and/or consultants to pursue our growth strategy, although there can be no assurance that we will be able to attract or retain qualified personnel on terms acceptable to us, if at all. Our management team and additional personnel that we may hire in the future will be primarily responsible for establishing and pursuing our licensing and enforcement strategy, including analyzing licensing and enforcement opportunities, making tactical decisions related to our strategy, identifying new applications for our existing technology and pursuing opportunities to invest in new technologies through strategic partnerships and acquisitions. We nonetheless expect to continue to utilize outside legal counsel and other professionals to execute aspects of our strategy for the foreseeable future, such as trial counsel to prosecute enforcement actions, although our management will control our overall litigation strategy and our strategy for each case we litigate.

#### Organic Fertilizer Segment

We operate a processing facility in Gonzales, CA that uses food and agricultural waste as raw materials to manufacture organic fertilizer and soil amendment products combining nutritional and disease suppression characteristics for sale to our agribusiness market. The Gonzales, CA facility is our production facility that services the West Coast agribusiness customer base through established distribution channels. This facility uses proprietary technology and process known as High Temperature Liquid Composting, or HTLC, which processes various biodegradable waste products into liquid and food waste-based fertilizer and a limited amount of solids that could be further processed into a useable form for use in agriculture, retail, and professional turf markets.

The Company has been evaluating whether to continue the organic fertilizer business as currently conducted. Subsequent to September 30, 2014, following discussions among the Board of Directors and management regarding various alternatives with respect to our organic fertilizer business, management recommended to the Board of Directors that the Company sell the organic fertilizer business in order to better focus on the Company's principal line of business, web and network security. On October 6, 2014, the Board of Directors adopted a resolution authorizing the management to pursue the sale of Converted Organics. We are pursuing the sale of our fertilizer business and Converted Organics will be held for sale until a sale is finalized.



## Recent Developments

### Patent Litigations

On September 24, 2014, Finjan entered into a license agreement with Websense, resolving all outstanding legal disputes, including the matter entitled Finjan, Inc. v. Websense, Inc. 5:13-cv-04398-BLF (N.D. Cal). See “Part II – Other Information, Item 1. Legal Proceedings.”

On November 4, Finjan filed a patent infringement lawsuit against Palo Alto Networks, Inc. in the United States District Court for Northern District of California. Finjan is asserting that Palo Alto Networks, Inc. is infringing upon several of Finjan’s patents.

### Converted Organics

Subsequent to September 30, 2014, following discussions among the Board of Directors and management regarding various alternatives with respect to our organic fertilizer business, management recommended to the Board of Directors that the Company sell the organic fertilizer business in order to better focus on the Company’s principal line of business, web and network security. On October 6, 2014, the Board of Directors adopted a resolution authorizing management to pursue the sale of Converted Organics. The Company is pursuing the sale of our fertilizer business and Converted Organics will be held for sale until a sale is finalized.

### Employment Agreement

On October 30, 2014, the Company entered into an Amended and Restated Employment Agreement with Shimon Steinmetz, the Company's Chief Financial Officer and Treasurer. See Note 10 to financial statements for additional information.

### Recent Accounting Pronouncements

On June 19, 2014, FASB issued ASU No. 2014-12, Compensation – Stock Compensation (Topic 718): Accounting for Share-Based Payments when the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period. This ASU requires that a performance target that affects vesting, and that could be achieved after the requisite service period, be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update further clarifies that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. The adoption of this standard is expected not to have a material impact on the Company’s condensed consolidated financial position and results of operations.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled to when products and services are transferred to customers. ASU 2014-09 will be effective for the Company beginning in its first quarter of 2018. Early adoption is not permitted. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently evaluating the impact of adopting the new revenue standard on its condensed consolidated financial statements.

In April 2014, the FASB issued Accounting Standards Update No. 2014-08, Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360) — Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. The amendment changes the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift in operations should be presented as discontinued operations. Those strategic shifts should have a major effect on the organization's operations and financial results. Examples include a disposal of a major geographic area, a major line of business, or a major equity method investment. This ASU is effective in the first quarter of 2015 and the Company is currently evaluating the impact of adopting the new revenue standard on its condensed consolidated financial statements.

Other recent accounting standards that have been issued or proposed by FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's condensed consolidated financial statements upon adoption.

## Comparability to Future Results

We have set forth below selected factors that we believe have had, or can be expected to have, a significant effect on the comparability of our recent or future results. In addition to the factors described below, please see Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 and Item 1A. “Risk Factors” in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 for additional factors that may affect our operating results.

## Fluctuations of Income, Expenses and Cash Flows Related to Licensing and Enforcement

Our licenses and judgments may not be recurring, and are not necessarily indicative of the income or cash flows that we expect to generate in the future from our existing technology portfolio or otherwise. We expect income, expenses and cash flows related to patent enforcement to be unpredictable and to fluctuate significantly from period to period. A number of factors, many of which are beyond our control, may affect the timing and amount of our income and cash flows related to patent licensing and enforcement actions, including, but not limited to, trial dates, the strength of our claims and likelihood of achieving an acceptable license on settlement, the timing and nature of any appeals and our ability to collect on any favorable judgments. Significant fluctuations in our income and cash flows may make our business difficult to manage and adversely affect our business and operating results. We do not recognize income from our licensing and enforcement actions until we actually receive the proceeds of licensing activities or litigation (whether resolved at trial or in a settlement).

Our expenses, principally with respect to litigation costs, may also vary significantly from period to period depending upon a number of factors, including, but not limited to, whether fees of outside legal counsel are paid on an hourly, contingent or other basis, the timing of depositions, discovery and other elements of litigation, costs of expert witnesses and other consultants, and other costs incurred in support of enforcement actions.

As a result of the factors described above and other known and unknown risks affecting our business, our historical operating performance may not be indicative of our future results.

## Public Company Expenses

As a result of the Merger, Finjan became a public company on June 3, 2013, and our common stock began trading on The NASDAQ Capital Market in May 2014. Finjan’s operating results as a private company do not reflect certain increased expenses that we incur, and will continue to incur, as a public company with listed securities, including legal and accounting fees and other general and administrative expenses related to, among other things, establishing and maintaining more comprehensive compliance and governance functions, establishing and maintaining internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act, and complying with federal securities laws. We have also incurred additional costs associated with compensation of non-employee directors and costs associated with the retention of full-time executives, employees and consultants to operate our web and network security technology business and to comply with our obligations as a public company. In addition, the cost of director and officer liability insurance has increased compared to costs incurred by Finjan prior to becoming a public company. Any of the foregoing costs could continue to increase as we pursue our growth strategy. In light of these costs and the changes in our management, business and growth strategy that resulted from the Merger, the costs that we incurred prior to the Merger may not be indicative of the costs we incur as a post-Merger public company and will continue to incur in the future.

## Stock-Based and Other Executive Compensation

Prior to the Merger with Converted Organics Inc. on June 3, 2013, Finjan had outstanding options to purchase an aggregate of 77 shares of Finjan common stock, all of which were awarded in May 2013. Following the Merger, stockholders approved the 2013 Plan, pursuant to which 1,456,833 options to purchase shares of our common stock are outstanding as of September 30, 2014, at exercise prices ranging from \$1.66 to \$5.90. Our Board of Directors also adopted the 2014 Plan, which our shareholders approved at our 2014 annual meeting of stockholders on July 10, 2014, pursuant to which 2,196,836 shares of common stock are authorized for issuance. A total of 244,504 RSUs and 25,000 stock options are outstanding under the 2014 Plan. Upon shareholder approval of the 2014 Plan, the 2013 Plan terminated effective July 10, 2014, other than with respect to the 1,456,833 options that are outstanding as of September 30, 2014, and no further grants will be made under the 2013 Plan. We expect that future equity-based awards will be made under the 2014 Plan to our directors, officers and other employees and consultants. As a result, to the extent relevant, we may incur non-cash, stock-based compensation expenses in future periods that may not be comparable to past periods.

In April 2013, Finjan engaged Philip Hartstein and Shimon Steinmetz as its President and Chief Financial Officer, respectively, pursuant to consulting agreements. Messrs. Hartstein and Steinmetz were appointed President and Chief Financial Officer of the Company on July 8, 2013, and additionally acquired the titles of Chief Executive Officer and Treasurer, respectively, on July 10, 2014. During the first nine months of 2014, we also hired several senior management employees and we intend to hire additional employees and/or consultants in the future to expand our business. Since the Merger, we have hired a total of 12 employees in the web and network security business. Accordingly, we will continue to incur compensation expenses in future periods that Finjan did not incur during the historical period presented in its financial statements.

#### Finjan Reorganization

Until May 2, 2013, Finjan was a wholly-owned subsidiary of Finjan Software, Inc., a Delaware corporation, which we refer to as “FSI.” In April 2013, Finjan distributed securities of two unaffiliated entities which it previously held to FSI, and made a payment of cash in an amount sufficient to repay and satisfy in full an intercompany loan from FSI to Finjan. Following that distribution, the Board of Directors and stockholders of FSI approved the dissolution of, and a plan of liquidation for, FSI that resulted in, among other things, the distribution of Finjan common stock to certain of FSI’s stockholders, each of whom received shares of our common stock in the Merger.

#### Financing Activities Prior to the Merger

In connection with the Merger, we redeemed, cancelled or otherwise retired all of the notes and derivative securities previously issued by Converted Organics, Inc., other than warrants that were exercisable for a de minimis number of shares of our common stock, and which, on October 14, 2014, expired.

## Results of Operations

The following table presents the results of operations for the three and nine months ended September 30, 2014 and 2013, respectively:

|                                             | For the Three Months Ended<br>September 30,<br>2014 |           | For the Nine Months Ended<br>September 30,<br>2014 |           |
|---------------------------------------------|-----------------------------------------------------|-----------|----------------------------------------------------|-----------|
|                                             | 2013                                                |           | 2013                                               |           |
|                                             | (in thousands)                                      |           |                                                    |           |
| Revenue:                                    |                                                     |           |                                                    |           |
| Web and network security technology         | \$4,998                                             | \$-       | \$4,998                                            | \$-       |
| Organic fertilizer                          | 377                                                 | 394       | 1,187                                              | 592       |
| Total Revenue                               | \$5,375                                             | \$394     | \$6,185                                            | \$592     |
| Cost of Revenues:                           |                                                     |           |                                                    |           |
| Web and network security technology         | \$800                                               | \$-       | \$800                                              | \$-       |
| Organic fertilizer                          | 237                                                 | 324       | 703                                                | 472       |
| Total Cost of Revenues                      | \$1,037                                             | \$324     | \$1,503                                            | \$472     |
| Gross Profit:                               | \$4,338                                             | \$70      | \$4,682                                            | \$120     |
| Operating Expense:                          |                                                     |           |                                                    |           |
| Web and network security technology         | \$3,534                                             | \$1,399   | \$9,723                                            | \$4,525   |
| Organic fertilizer                          | 260                                                 | 50        | 758                                                | 53        |
| Total Operating Expenses:                   | \$3,794                                             | \$1,449   | \$10,481                                           | \$4,578   |
| Loss from operations:                       | \$544                                               | \$(1,379) | \$(5,799)                                          | \$(4,458) |
| Other Income, Net:                          |                                                     |           |                                                    |           |
| Web and network security technology         | \$-                                                 | \$(4)     | \$1,000                                            | \$1,013   |
| Organic fertilizer                          | (1)                                                 | -         | 16                                                 | -         |
| Total Other Income:                         | \$(1)                                               | \$(4)     | \$1,016                                            | \$1,013   |
| Interest Income:                            |                                                     |           |                                                    |           |
| Web and network security technology         | \$8                                                 | \$7       | \$82                                               | \$118     |
| Organic fertilizer                          | -                                                   | -         | -                                                  | -         |
| Total Interest Income:                      | \$8                                                 | \$7       | \$82                                               | \$118     |
| Net loss before Provision for Income Taxes: | \$551                                               | \$(1,376) | \$(4,701)                                          | \$(3,327) |
| Income Tax Expense:                         | \$(2)                                               | \$-       | \$(3)                                              | \$7       |
| Net Loss:                                   | \$553                                               | \$(1,376) | \$(4,698)                                          | \$(3,334) |

During the three and nine months ended September 30, 2014, total Revenue increased by approximately \$5.0 million and \$5.6 million or 1264% and 945%, respectively, as compared to the same periods in 2013. The increase was due to the recognition as Revenue of the first installment of \$3.0 million and second installment of \$2.0 million receivable within 12 months as part of recently signed license agreement.

During the three and nine months ended September 30, 2014, Cost of Revenues increased by \$0.8 million and \$1.0 million, or 220.1%, and 218.4%, respectively, as compared to the same periods in 2013. The increase was due to a \$0.8 million legal fees payable upon execution of the recently signed license agreement. Also, for the nine months ended September 30, 2014, the Company recognized a full nine months of costs from the fertilizer business compared to less than four months of costs recognized in the same period in 2013, due to the timing of the Merger.

The Company's Operating Expenses consist primarily of general and administrative expenses, including stock-based compensation and consulting, accounting, legal and other professional fees. During the three and nine months ended

September 30, 2014, Total Operating Expenses increased by \$2.3 million and \$5.9 million, or 161.1% and 128.7%, respectively, as compared to the same periods in 2013. The increased costs for the three months ended September 30, 2014 were primarily due to a \$1.3 million increase in legal and consultancy fees for patent enforcement activities, \$0.7 million increase in compensation expenses and a \$0.3 million increase in various general and administration costs, compared to the same period in 2013. The increased costs for the nine months ended September 30, 2014 were primarily due to a \$2.7 million increase in legal and consultancy fees for patent enforcement activities, a \$1.7 million increase in compensation expenses due to additional employees and restricted stock and stock option awards, a \$1.0 million increase in costs related to corporate legal fees, public company expenses and investor relation costs, and an additional \$0.5 million in various costs related to opening a new office in California, evaluation of strategic transactions, franchise taxes, and directors and officers insurance.

During the three months ended September 30, 2014 and 2013, the Company did not have Other Income. Other Income remained consistent during the nine months ended September 30, 2014, at \$1.0 million as compared to the same periods in 2013. The Company received the third and last installment payment of \$1.0 million associated with a licensing agreement entered into in 2012 during the nine months ended September 30, 2014. The second installment payment of the settlement was received during the nine months ended September 30, 2013.

During the three months ended September 30, 2014, Interest Income remained consistent with the same period in 2013. During the nine months ended September 30, 2014, Interest Income reduced approximately \$40,000 or 31% due to the lower average cash balance on hand compared to the same period in 2013. Income Tax Expense increased during the three and nine months ended September 30, 2014, by approximately \$2,000 and \$10,000, respectively, due to limited cumulative taxable operations of the Company in certain local jurisdictions.

## Liquidity and Capital Resources

### Overview

Our cash requirements are, and will continue to be, dependent upon a variety of factors. We expect to continue devoting significant capital resources to the litigations in process and any other litigation we pursue. We also expect to require significant capital resources to maintain our issued patents, prosecute our patent applications, and acquire new technologies as part of our growth strategy, and to attract and retain qualified personnel on a full-time basis. In addition, on November 21, 2013, we made a \$5 million commitment to invest in an Israel-based limited partnership venture capital fund seeking to invest in early-stage cyber technology companies of which \$4.0 million remains outstanding. The fund can make a call on our remaining \$4.0 million commitment at any time until 2018. We expect to make payments to honor this commitment if and when capital calls are made by the fund. We have sufficient cash on hand to fund such obligations.

The Company leases a production facility in Gonzales, California, corporate headquarters in New York and an office in Menlo Park, California. Under the terms of the leases, the Company owes minimum lease obligations of \$1.6 million over the life of the leases. The company expects to pay \$0.4 million in lease payments over the next 12 months.

Our primary sources of liquidity are cash flows from operations, principally historical and future proceeds from licenses, settlements and judgments in connection with our patent enforcement and licensing activities. On September 24, 2014, Finjan entered into a licensing agreement that provides for installment payments through January 13, 2017. The amount and timing of cash flows from our licensing and enforcement activities are subject to uncertainties stemming primarily from uncertainties regarding the rates of adoption of our patented technologies, the success of our licensing efforts and the outcome of enforcement actions. As a result, our income and cash flows may vary significantly from period to period.

As of September 30, 2014, we had approximately \$20.4 million of cash and cash equivalents and \$20.2 million of working capital. The decrease in our cash and cash equivalents of approximately \$4.2 million from December 31, 2013 is primarily attributable to approximately \$3.8 million used in operations, net of \$4.0 million received from licensing agreements entered into in 2012 and the third quarter of 2014, a \$0.5 million capital commitment called by the Israel-based limited partnership venture capital fund and approximately \$0.1 million received from exercises of stock options by certain former employees.

Based on current forecasts and assumptions, management believes that our cash and cash equivalents will be sufficient to meet our anticipated cash needs for working capital and capital expenditures for at least the next 12 months. We may, however, encounter unforeseen difficulties that may deplete our capital resources more rapidly than anticipated. Even without such difficulties, we may seek to raise additional capital to grow our business. Any efforts to seek additional funding could be made through issuances of equity or debt, or other external financing. However, additional funding may not be available on favorable terms, or at all.

Our Converted Organics subsidiary does not have funds to build additional facilities and we have no plans to raise such funds or allocate funds generated from our web and network security technology business for that purpose. Furthermore, we are pursuing a plan to sell the fertilizer business and Converted Organics is held for sale until the sale process is finalized. There can be no assurance that we will be able to sell the organic fertilizer business on acceptable terms or at all.

#### Cash Flows from Operating Activities

Finjan's net cash used in operating activities decreased by \$27.0 million to \$3.8 million during the nine months ended September 30, 2014, as compared to the same period in 2013. This reduction was primarily attributable to the payment of accrued income taxes of \$25.3 million during the nine months ended September 30, 2013. Accrued income taxes paid during the nine months ended September 30, 2014 were not material.

#### Cash Flows from Investing Activities

During the nine months ended September 30, 2014, cash flow from investing activities decreased by \$1.1 million. Cash used by investing activities was approximately \$0.5 million compared \$0.6 million cash flow from investing activities during the comparable period in 2013. Cash used in investing activities during the nine months ended September 30, 2014, related to a \$0.5 million capital commitment called by the Israel-based limited partnership venture capital fund. The principal source of cash in the nine months ended September 30, 2013, was the proceeds from notes receivable and cash acquired through the Merger.

#### Cash Flows from Financing Activities

During the nine months ended September 30, 2014, cash flows from financing activities were approximately \$0.1 million attributable to exercise of stock options by certain former employees. During the comparable period in 2013, Finjan used approximately \$34.1 million in financing activities. The decrease in cash used in financing activities was attributable to a loan repayment of \$33.9 million made to Finjan's former parent in February 2013, along with the repurchase of common stock for \$204,000 in May 2013.

#### Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements.

#### Impact of Recently Issued Accounting Pronouncements

See Item 2.

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our exposure to market risk for changes in interest rates relates primarily to our holdings of cash and cash equivalents. Our cash and cash equivalents as of September 30, 2014, totaled \$20.4 million and consisted primarily of cash and money market funds with original maturities of three months or less from the date of purchase. Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of the interest rates in the United States. However, because of the short-term nature of the instruments in our portfolio, a sudden change in market interest rates of 10% would not be expected to have a material impact on our financial condition or results of operations. We do not have any foreign currency or other derivative financial instruments.

#### Item 4. Controls and Procedures

##### Evaluation of Disclosure Controls and Procedures

As previously disclosed in Item 9A of our Form 10-K for the year ended December 31, 2013, management concluded that there were material weaknesses in internal control over financial reporting related to the calculation and recording of cost of goods sold at the transaction level, insufficient control activities to ensure that all sales transactions were recorded at Converted Organics and insufficient controls over the revenue process at the Finjan entity, primarily due to a lack of readily available documentation to support the computations utilized in the Company's fair value assessment of the component elements of its litigation settlements and judgment award entered into in its favor during the year ended December 31, 2013. Remedial actions have been implemented to address these controls, including adherence to existing control procedures and implementation of the following new enhanced controls related to:

##### Finjan Revenue

- During the nine months ended September 30, 2014, management hired individuals with the necessary technical accounting expertise to ensure that complex revenue transactions are recorded in accordance with Generally Accepted Accounting Principles in the United States.
- Management has implemented a process in which all relevant data required to establish and support the fair value components of the litigation settlements and judgments is properly reviewed, approved and maintained.

##### Converted Organics Cost of Revenue

- Management developed and implemented a process during the first quarter of 2014 whereby Cost of Revenue is calculated based on standard costs and applied to each sale made during the period at the time of sale.
- Management has enhanced inventory reporting to include detailed inventory reports that are reviewed and approved by management.

##### Converted Organics Revenue

- Management has implemented the use of a sales order log which is reconciled to sales recorded at the end of each period to ensure that all revenue earned during the period has been recorded.

##### Evaluation of Disclosure Controls and Procedures

Our management, with the participation of the President and Chief Executive Officer and the Chief Financial Officer and Treasurer (the principal executive and principal financial officer, respectively) evaluated the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this Quarterly Report on Form 10-Q. Management believes that the controls implemented during the period are sufficient. However, they have concluded that such controls have not been in place for a sufficient period of time in order to conclude that the identified material weaknesses described above have been fully remediated. Therefore, based on this evaluation, the President and Chief Executive Officer and

the Chief Financial Officer and Treasurer (the principal executive and principal financial officer, respectively) have concluded that as of September 30, 2014, our disclosure controls were not effective.

#### Changes in Internal Control over Financial Reporting

Except as has been described above, there has been no material change in our internal control over financial reporting (as defined in Rules 13a-15(f) under the Exchange Act) during the quarter ended September 30, 2014, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

## Item 1. Legal Proceedings

## A. United States District Court Actions

Finjan, Inc. v. FireEye, Inc., 4:13-cv-03133SBA, (N.D. Cal.):

We filed a patent infringement lawsuit against FireEye, Inc. in the United States District Court for the Northern District of California on July 8, 2013, asserting that FireEye, Inc. is directly and indirectly infringing certain claims of Finjan's U.S. Patent Nos. 6,804,780, 7,058,822, 7,647,633, 7,975,305, 8,079,086, and 8,225,408, through the manufacture, use, importation, sale, and/or offer for sale of its products and services, including but not limited to FireEye's Threat Protection Platform, including the FireEye Malware Protection System, the FireEye Dynamic Threat Intelligence, and the FireEye Central Management System. We amended our Complaint on August 16, 2013, to add U.S. Patent No. 6,154,844 to the list of asserted patents. The principal parties in this proceeding are Finjan, Inc. and FireEye, Inc. We seek entry of judgment that FireEye, Inc. has infringed, is infringing, and has induced infringement of the above-listed patents, a preliminary and permanent injunction from infringing, or inducing the infringement of the above-listed patents, an accounting of all infringing sales and revenues, damages no less than a reasonably royalty and consistent with proof, enhanced damages, and enhanced damages for willful infringement, costs, interest, and reasonable attorneys' fees under 35 U.S.C. §285. FireEye, Inc. answered our Amended Complaint on September 3, 2013, by denying our allegations of infringement and counterclaiming that the asserted patents are invalid under 35 U.S.C. §§ 101, 102, 103 and/or 112. Both parties have demanded a jury trial. On June 6, 2014, the Honorable Sandra Brown Armstrong entered an Order Granting Motion to Stay Pending Reexamination of certain Finjan patents asserted in Finjan, Inc. v. FireEye, Inc., 4:13-cv-03133-SBA (N.D. Cal.). Accordingly, this action is off calendar until the U.S. Patent and Trademark Office completes its administrative reexamination proceedings. There can be no assurance that we will be successful in settling or litigating these claims.

Finjan, Inc. v. Blue Coat Systems, Inc., Case 5:13-cv-03999-BLF, (N.D. Cal.):

We filed a patent infringement lawsuit against Blue Coat Systems, Inc., in the United States District Court for the Northern District of California on August 28, 2013, asserting that Blue Coat Systems, Inc. is directly and indirectly infringing certain claims of Finjan's U.S. Patent Nos. 6,154,844, 6,804,780, 6,965,968, 7,058,822, 7,418,731, and 7,647,633 patents, through the manufacture, use, importation, sale, and/or offer for sale of its products and services, including but not limited to Blue Coat's ProxyAV Appliances and Software, Blue Coat's ProxySG Appliances and Software, and Blue Coat's WebPulse Service. The principal parties in this proceeding are Finjan, Inc. and Blue Coat, Inc. We seek entry of judgment that Blue Coat has infringed, is infringing, has induced infringement of the above-listed patents, and contributory infringes the above-listed patents, a preliminary and permanent injunction from infringing, or inducing the infringement of the above-listed patents, an accounting of all infringing sales and revenues, damages no less than a reasonably royalty and consistent with proof, enhanced damages, and enhanced damages for willful infringement, costs, interest, and reasonable attorneys' fees under 35 U.S.C. §285. Blue Coat answered our Complaint on November 26, 2013, by denying our allegations of infringement and counterclaiming that the asserted patents are invalid under 35 U.S.C. §§ 101, 102, 103 and/or 112. Both parties have demanded a jury trial. The Court held a claim construction, or Markman Hearing, for this matter on August 22, 2014. The Court entered its Markman Order entitled "Order Construing Claims in U.S. Patent Nos. 6,154,844; 7,058,822; 7,418,731; 7,647,633" on October 20, 2014, which is available on PACER ([www.pacer.gov](http://www.pacer.gov)), as Docket No. 118. We believe the Court's interpretation of ten disputed claim terms in the '844, '822, '731, and '633 patents coincides with our infringement theories against Blue Coat, allowing us to move forward without dropping any of our asserted patents, theories, or any of the accused products, thereby reinforcing our damages case against Blue Coat. Trial for this action is scheduled for July 20, 2015.

There can be no assurance that we will be successful in settling or litigating these claims.

Finjan, Inc. v. Websense, Inc., Case 5:13-cv-04398-BLF, (N.D. Cal.)(consolidated):

We filed a patent infringement lawsuit against Websense, Inc. in the United States District Court for the Northern District of California on September 23, 2013, asserting that Websense, Inc. is infringing U.S. Patent Nos. 7,058,822, 7,647,633, 8,141,154, and 8,225,408. We filed a separate suit against Websense, Inc. in the United States District Court for the Northern District of California on March 24, 2014, asserting that Websense, Inc. is infringing U.S. Patent No. 8,677,494. The two patent infringement matters we filed against Websense, Inc. in the United States District Court for the Northern District of California on September 23, 2013 (5:13-cv-04398-BLF (N.D. Cal.)), and March 24, 2014 (5:14-cv-01353-BLF (N.D. Cal.)), were consolidated into one matter on June 23, 2014. The consolidated case number was 5:13-cv-04398-BLF, (N.D. Cal.). We asserted that Websense, Inc. was directly and indirectly infringing one or more claims of our U.S. Patent Nos. 7,058,822, 7,647,633, 8,141,154, 8,225,408, and 8,677,494, through the manufacture, use, importation, sale, and/or offer for sale of its products and services, including but not limited to Websense TRITON Products, Web Security Gateway Products, Data Security Products, CSI Service, and Websense products and services using ACE or ThreatSeeker. The principal parties in this proceeding were Finjan, Inc. and Websense, Inc. We sought entry of judgment that Websense had infringed, was infringing, and had induced infringement of the above-listed patents, a preliminary and permanent injunction from infringing, or inducing the infringement of, the above-listed patents, an accounting of all infringing sales and revenues, damages no less than a reasonably royalty and consistent with proof, enhanced damages, and enhanced damages for willful infringement, costs, interest, and reasonable attorneys' fees under 35 U.S.C. §285. Websense answered our Complaints, filed on November 26, 2013 and April 21, 2014, respectively, by denying our allegations of infringement and asserting various defenses, including non-infringement and invalidity of the asserted patents under 35 U.S.C. §§ 101, 102, 103, and/or 112, prosecution disclaimer and prosecution history estoppel, estoppel and Laches. Finjan had demanded a jury trial. Further, the Court had scheduled a Markman Hearing for this matter on November 21, 2014, and trial for this action was scheduled for October 5, 2015.

On September 24, 2014, Finjan entered into a Confidential Patent License, Settlement and Release Agreement with Websense, Inc. resolving all outstanding legal disputes, including the matter entitled Finjan, Inc. v. Websense, Inc. 5:13-cv-04398-BLF (N.D. Cal.).

Finjan, Inc. v. Proofpoint, and Armorize Technologies, Inc., Case 5:13-cv-05808-BLF (N.D. Cal.):

We filed a patent infringement lawsuit against Proofpoint, Inc. and its wholly-owned subsidiary, Armorize Technologies, Inc., in the United States District Court for the Northern District of California on December 16, 2013, asserting that defendants Proofpoint, Inc. and Armorize Technologies collectively and separately are directly and indirectly infringing one or more claims of Finjan's U.S. Patent Nos. 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, through the manufacture, use, importation, sale, and/or offer for sale of its products and services, including but not limited to Proofpoint Enterprise Protection, Proofpoint's Malvertising Protection, Proofpoint's Safelmpressions, Proofpoint's Targeted Attack Protection, Proofpoint Essentials, Proofpoint Protection Server, Proofpoint Messaging Security Gateway, HackAlert Anti-Malware, Codesecure, SmartWAF, Safelmpressions, and Malvertising Protection. The principal parties in this proceeding are Finjan, Inc., Proofpoint, Inc., and Armorize Technologies, Inc. We seek entry of judgment that Proofpoint, Inc. and Armorize Technologies, Inc. have infringed and are infringing the above-listed patents, a judgment that Proofpoint, Inc. and Armorize Technologies, Inc. have induced infringement of U.S. Patent Nos. 6,154,844, 7,058,822, 7,613,918, 7,647,633, 7,975,305, 8,079,086, and 8,225,408, a preliminary and permanent injunction from infringing, or inducing the infringement of the same patents, an accounting of all infringing sales and revenues, damages no less than a reasonable royalty and consistent with proof, enhanced damages, and enhanced damages for willful infringement, costs, interest, and reasonable attorneys' fees under 35 U.S.C. §285. On April 27, 2014, this action was reassigned to the Honorable Beth Labson Freeman. On June 30, 2014, Proofpoint filed a Motion to Stay pending reexamination of two of eight of our asserted patents by the U.S. Patent and Trademark Office; we filed our Response to Proofpoint's Motion to Stay on July 14, 2014; and Proofpoint filed its Reply In Support of its Motion to Stay on July 21, 2014. The Motion to Stay was heard on August 21, 2014, and the Court entered an Order denying Proofpoint's Motion on September 3, 2014. Further, the Court has scheduled a Markman Hearing for this matter on May 8, 2015. Trial for this action is scheduled for January 11, 2016. There can be no assurance that we will be successful in settling or litigating these claims.

Finjan, Inc. v. Sophos Inc., Case 3:14-cv-01197-WHO (N.D. Cal.):

We filed a patent infringement lawsuit against Sophos Inc. in the United States District Court for the Northern District of California on March 14, 2014, asserting that Sophos Inc. is directly and indirectly infringing certain claims of Finjan's U.S. Patent Nos. 6,154,844, 6,804,780, 7,613,918, 7,613,926, 7,757,289, and 8,141,154. We amended our Complaint on April 8, 2014, to add U.S. Patent Nos. 8,677,494 and 8,566,580 to the list of asserted patents. This action was reassigned to the Honorable William H. Orrick on April 10, 2014. We assert infringement against Sophos Inc. through the manufacture, use, importation, sale, and/or offer for sale of its products and services, including but not limited to Enduser Protection Suites, Endpoint Antivirus, Endpoint Antivirus – Cloud, Sophos Cloud, Unified Threat Management, Next-Gen Firewall, Secure Web Gateway, Secure Email Gateway, Web Application Firewall, Network Storage Antivirus, Virtualization Security, SharePoint Security, Secure VPN, Secure Wi-Fi and Server Security. The principal parties in this proceeding are Finjan, Inc. and Sophos Inc. We seek entry of judgment that Sophos Inc. has infringed and is infringing the above-listed patents, a judgment that Sophos Inc. has induced infringement of U.S. Patent Nos. 6,804,780, 7,613,918, 7,613,926, 7,757,289, 6,154,844, and 8,667,494, a judgment that Sophos Inc. has contributorily infringed U.S. Patent No. 8,566,580, a preliminary and permanent injunction from infringing, inducing, or contributorily infringing the same patents, an accounting of all infringing sales and revenues, damages no less than a reasonable royalty and consistent with proof, enhanced damages, and enhanced damages for willful infringement, costs, interest, and reasonable attorneys' fees under 35 U.S.C. §285. Sophos Inc. filed its Answer to our First Amended Complaint on May 9, 2014. Both parties demanded a jury trial. Sophos Inc. filed its Amended Answer to the Complaint on May 30, 2014. Mediation pursuant to the Court's ADR Program is scheduled for November 20, 2014. Further, Judge Orrick has scheduled a Technology Tutorial in this matter for February 9, 2015, and a claim construction or Markman Hearing on February 13, 2015. The Court has not yet calendared a trial date. There can be no assurance that we will be successful in settling or litigating these claims.



Finjan, Inc. v. Symantec Corporation., Case 3:14-cv-02998-RS (N.D. Cal.):

We filed a patent infringement lawsuit against Symantec Corporation in the United States District Court for the Northern District of California on June 30, 2014, asserting that Symantec Corp. is directly and indirectly infringing certain claims of Finjan's U.S. Patent Nos. 7,756,996, 7,757,289, 7,930,299, 8,015,182, and 8,141,154, through the manufacture, use, importation, sale, and/or offer for sale of its products and services, including but not limited to Symantec Endpoint Protection, Symantec Endpoint Protection Small Business Edition, Network Access Control, Norton Internet Security, Norton Anti-Virus, Norton 360, Safe-Web Lite, Managed Security Services-Advance Threat Protection, Advanced Threat Protection Solution, Symantec Protection Engine for Cloud Services, Symantec Protection Engine for Network Attached Storage, Symantec Mail Security for Domino, Symantec Mail Security for Microsoft Exchange, Symantec Scan Engine for Windows, Web Security.cloud, Messaging Gateway, Messaging Gateway for Service Providers, Messaging Gateway Small Business Edition, Email Security.cloud, AntiVirus/Filtering for Domino, AntiVirus for Linux, Mail Security for SMTP, Scan Engine for Linux/Solaris, AntiVirus for Caching/Messaging/NAS for Linux/Solaris, Protection Engine for Linux/Solaris, AntiVirus for Caching/Messaging/NAS for Windows, Web Gateway and Norton Security. We amended our Complaint on September 11, 2014 to add U.S. Patent Nos. 6,154,844, 7,613,926 and 8,677,494 to the list of asserted patents. The principal parties in this proceeding are Finjan, Inc. and Symantec Corp. We seek entry of judgment that Symantec has infringed, is infringing, has contributorily infringed, is contributorily infringing, has induced infringement, and is inducing infringement of the above-listed patents, a preliminary and permanent injunction from infringing, contributorily infringing, or inducing the infringement of the above-listed patents, an accounting of all infringing sales and revenues, damages no less than a reasonable royalty and consistent with proof, enhanced damages, and enhanced damages for willful infringement, costs, interest, and reasonable attorneys' fees under 35 U.S.C. §285. Symantec answered our Amended Complaint on September 25, 2014, by denying our allegations of infringement and counterclaiming that the asserted patents are invalid under 35 U.S.C. §§ 101, 102, 103 and/or 112. Both parties have demanded a jury trial. The Initial Case Management Conference is scheduled for November 20, 2014. The Court has not yet scheduled a claim construction or Markman Hearing date, or trial date. There can be no assurance that we will be successful in settling or litigating these claims.

#### B. Appellate Court Actions:

Finjan, Inc. v. Symantec Corp., Websense, Inc., Sophos Inc., No. 2013-1682, United States Court of Appeals for the Federal Circuit:

On December 10, 2013, we appealed to the Court of Appeals for the Federal Circuit ("Federal Circuit") the final judgment entered by the United States District Court for the District of Delaware, Case No. 10-CV-593-GMS, in favor of defendants-appellees, Symantec Corporation, Websense, Inc., and Sophos Inc., where there was a finding of no liability for U.S. Patent Nos. 6,092,194 and 6,480,962. The issue presented by us on appeal was whether the District Court erred in allowing to stand the jury's verdict that the patents-in-suit are invalid and whether the District Court erred in not granting our request for a new trial. Defendants-Appellees filed their brief on February 24, 2014, and we filed our Reply Brief thereto on April 9, 2014. The Federal Circuit heard oral argument on September 9, 2014, and the Federal Circuit filed a non-precedential Judgment affirming the District Court's judgment without opinion under Federal Circuit Rule 36 on September 15, 2014.

#### C. Proceedings before the United States Patent & Trademark Office (USPTO)

Ex Parte Reexamination Proceedings:

As defined by the USPTO, an “Ex Parte Reexamination is a “proceeding in which any person may request reexamination of a U.S. Patent based on one or more prior patents or printed publications. A requester who is not the patent owner has limited participation rights in the proceedings.”

U.S. Patent No. 8,079,086 (Assignee, Finjan, Inc.):

A first third-party request for ex parte reexamination of U.S. Patent No. 8,079,086 was filed on October 7, 2013, on behalf of FireEye, Inc. and assigned Reexamination Control Number 90/013,015. The USPTO denied FireEye's request on November 19, 2013, and the reexamination proceedings terminated on January 14, 2014.

A second third-party request by FireEye, Inc., for ex parte reexamination of U.S. Patent No. 8,079,086 was filed on February 7, 2014, and assigned Reexamination Control Number 90/013,147. The USPTO denied FireEye's second request on March 27, 2014, and the reexamination proceedings terminated on April 29, 2014.

U.S. Patent No. 7,647,633 (Assignee, Finjan, Inc.):

A third-party request for ex parte reexamination of claims 1-7 and 28-33 of U.S. Patent No. 7,647,633 was filed on October 7, 2013, on behalf of FireEye, Inc. and assigned Reexamination Control Number 90/013,016. 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 (including previously considered and disclosed prior art) under 35 U.S.C. §§ 102 and/or 103. 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. The response to non-final Office Action included, inter alia: arguments and a supporting declaration by us showing commercial success, industry praise, and copying by others of products covered by pending claims; a declaration by a technology expert rebutting improper technical interpretations of the prior art and the invention; and additional new claims for consideration. Additionally, a renewed petition to accept an unintentionally delayed priority claim was also submitted. The case is currently awaiting USPTO action. There can be no assurance that we will be successful in rebutting the patentability challenge to claims 1-7 and 28-33 before the USPTO.

U.S. Patent No. 7,058,822 (Assignee, Finjan, Inc.):

A third-party request for ex parte reexamination of claims 1-8 and 16-27 of U.S. Patent No. 7,058,822 was filed on October 7, 2013, on behalf of FireEye, Inc. and assigned Reexamination Control Number 90/013,017. 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 (including previously considered and disclosed prior art) under 35 U.S.C. §§ 102 and/or 103. 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. The response to non-final Office Action included, among other things: arguments and a supporting declaration by us showing commercial success, industry praise, and copying by others of products covered by pending claims; a declaration by a technology expert rebutting improper technical interpretations of the prior art and the invention; and additional new claims for consideration. A final Office Action was mailed on September 8, 2014 and a response thereto was filed on October 8, 2014. The response to final Office Action included, among other things: proposed claims amendments and arguments rebutting the various prior art rejections. Additionally, a petition to accept an unintentionally delayed priority claim was also submitted and granted by the Petitions Branch of the USPTO. On October 23, 2014, an Advisory Action was issued by the Patent Office maintaining the rejections from the final Office Action and indicating that Finjan's proposed claims amendments would not be entered. Finjan's options for responding include: (1) filing a petition to the Director of the Office under 37 CFR 1.181 challenging the Office's failure to enter the amendments and requesting entry; (2) filing a notice of appeal (and subsequent appeal brief) to the Patent Trial and Appeal Board (PTAB); (3) taking no action; or (4) seeking examination of the amended claim set through a continuation application, the prosecution of which may be expedited. Finjan intends to keep all of its options open. There can be no assurance that we will be successful in rebutting the patentability challenge to claims 1-8 and 16-27 before the USPTO.

As defined by the USPTO, an “Inter Partes Reexamination is a “proceeding in which any person who is not the patent owner and is not otherwise estopped may request examination of a U.S. Patent issued from an original application filed on or after November 29, 1999, based on one or more prior patents or printed publications. Both patent owner and third party requester have participation rights throughout the proceeding, including appeal rights.”

U.S. Patent No. 6,480,962 (Assignee, Finjan, Inc.):

A third-party request for inter partes reexamination of all claims 1-55 of U.S. Patent No. 6,480,962 was filed on November 29, 2011, on behalf of Symantec Corporation, and assigned Reexamination Control Number 95/001,836. The request for reexamination was granted and a non-final Office Action was mailed January 25, 2012. The non-final Office Action included rejections of claims 1-55 under numerous prior art references and combinations of such references (including previously considered and disclosed prior art) under 35 U.S.C. §§ 102 and/or 103. We timely filed a response to non-final Office Action, as did the third party requester and the USPTO mailed an Action Closing Prosecution (ACP) on October 2, 2013. We timely responded to the ACP on December 2, 2013, which included proposed claim amendments for consideration. The third party requester subsequently responded on January 2, 2014. On June 27, 2014, the USPTO stated that the proposed claim amendments would not be entered and issued a Right of Appeal Notice. On July 1, 2014, we filed a notice of appeal of the rejection of Claims 1-55 followed by an Appeal Brief on September 2, 2014. The requester (Symantec Corporation) filed a respondent brief on October 2, 2014. We are awaiting a response from the USPTO. There can be no assurance that we will be successful in rebutting the patentability challenge to claims 1-55 before the USPTO.

Except for the foregoing disclosures, we are not presently aware of any other material pending legal proceedings, to which we or any of our subsidiaries are a party or of which any of its property is the subject.

Litigation, including patent litigation, is inherently subject to uncertainties. As such, there can be no assurance that the Company will be successful with its oral arguments in front of the court or in litigating and/or settling all these claims.

#### Item 1A. Risk Factors

No Material Changes

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not Applicable

#### Item 3. Defaults upon Senior Securities

Not Applicable

#### Item 4. Mine Safety Disclosures

Not Applicable

#### Item 5. Other Information

Not Applicable

#### Item 6. Exhibits

The exhibits listed in the accompanying Exhibit Index are filed as part of this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 10, 2014

Finjan Holdings, Inc.  
(Registrant)

/s/ Philip Hartstein  
Philip Hartstein  
President and Chief Executive Officer  
(Principal Executive Officer)

/s/ Shimon Steinmetz  
Shimon Steinmetz  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)

## INDEX TO EXHIBITS

| Exhibit Number | Exhibit Description                                                                                                                                                                                                                                                                         |
|----------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1            | Agreement and Plan of Merger, dated as of June 3, 2013, by and among Converted Organics, Inc. (now known as Finjan Holdings, Inc.) (the “Company”), COIN Merger Sub, Inc., and Finjan, Inc. (incorporated by reference to Exhibit 2.1 to our current report on Form 8-K filed June 3, 2013) |
| 2.2            | Asset Purchase Agreement between the Company and United Organic Products, LLC, dated January 21, 2008 (incorporated by reference to our current report Exhibit 2.02 on Form 8-K filed January 29, 2008)                                                                                     |
| 2.3            | Asset Purchase Agreement between the Company and Waste Recovery Industries, LLC, dated January 21, 2008 (incorporated by reference to Exhibit 2.03 to our current report on Form 8-K filed January 29, 2008)                                                                                |
| 3.1            | Amended and Restated Certificate of Incorporation of the Company (incorporated by reference to Exhibit 3.1 to our Current Report on Form 8-K/A filed July 14, 2014)                                                                                                                         |
| 3.2            | Amended and Restated Bylaws of the Company (incorporated by reference to Exhibit 3.2 to our Current Report on Form 8-K/A filed July 14, 2014)                                                                                                                                               |
| 31.1           | Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*                                                                                                                  |
| 31.2           | Certification of Principal Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*                                                                                                                  |
| 32.1           | Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002†*                                                                                                            |
| 101.INS        | XBRL Instance Document***                                                                                                                                                                                                                                                                   |
| 101.SCH        | XBRL Taxonomy Extension Schema Document***                                                                                                                                                                                                                                                  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document***                                                                                                                                                                                                                                    |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document***                                                                                                                                                                                                                                     |

101.LAB XBRL Taxonomy Extension Label Linkbase Document\*\*\*

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document\*\*\*

\* Filed herewith.

† This certification is being furnished and shall not be deemed “filed” with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be deemed to be incorporated by reference into any filing under the Securities Act or the Exchange Act, except to the extent that the registrant specifically incorporates it by reference.

\*\*\* Pursuant to Rule 406T of Regulation S-T, the Interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

# Management contract or compensatory plan or arrangement.