

Digimarc Corporation
Consolidated Income Statement Information
(in thousands, except per share amounts)
(Unaudited)

| | Three Month Information | | Six Month Information | |
|--|-------------------------|-------------------|-----------------------|--------------------|
| | June 30, 2017 | June 30, 2016 | June 30, 2017 | June 30, 2016 |
| Revenue: | | | | |
| Service | \$ 3,253 | \$ 3,148 | \$ 6,949 | \$ 6,398 |
| Subscription | 1,420 | 1,494 | 2,865 | 2,957 |
| License | 914 | 815 | 1,864 | 1,682 |
| Total revenue | <u>5,587</u> | <u>5,457</u> | <u>11,678</u> | <u>11,037</u> |
| Cost of revenue: | | | | |
| Service | 1,464 | 1,401 | 3,099 | 2,833 |
| Subscription | 534 | 594 | 1,090 | 1,256 |
| License | 122 | 99 | 240 | 195 |
| Total cost of revenue | <u>2,120</u> | <u>2,094</u> | <u>4,429</u> | <u>4,284</u> |
| Gross profit: | | | | |
| Service | 1,789 | 1,747 | 3,850 | 3,565 |
| Subscription | 886 | 900 | 1,775 | 1,701 |
| License | 792 | 716 | 1,624 | 1,487 |
| Total gross profit | <u>3,467</u> | <u>3,363</u> | <u>7,249</u> | <u>6,753</u> |
| Gross margin: | | | | |
| Service | 55% | 55% | 55% | 56% |
| Subscription | 62% | 60% | 62% | 58% |
| License | 87% | 88% | 87% | 88% |
| Percentage of gross profit to total revenue | 62% | 62% | 62% | 61% |
| Operating expenses: | | | | |
| Sales and marketing | 3,997 | 2,856 | 7,989 | 5,811 |
| Research, development and engineering | 3,936 | 3,379 | 7,395 | 6,684 |
| General and administrative | 2,239 | 1,976 | 4,624 | 4,146 |
| Intellectual property | 345 | 462 | 737 | 896 |
| Total operating expenses | <u>10,517</u> | <u>8,673</u> | <u>20,745</u> | <u>17,537</u> |
| Operating loss | (7,050) | (5,310) | (13,496) | (10,784) |
| Other income, net | <u>116</u> | <u>42</u> | <u>234</u> | <u>88</u> |
| Loss before income taxes | (6,934) | (5,268) | (13,262) | (10,696) |
| Benefit (provision) for income taxes | (9) | (15) | 101 | (22) |
| Net loss | <u>\$ (6,943)</u> | <u>\$ (5,283)</u> | <u>\$ (13,161)</u> | <u>\$ (10,718)</u> |
| Earnings (loss) per common share: | | | | |
| Loss per common share - basic | \$ (0.68) | \$ (0.62) | \$ (1.29) | \$ (1.25) |
| Loss per common share - diluted | \$ (0.68) | \$ (0.62) | \$ (1.29) | \$ (1.25) |
| Weighted average common shares outstanding - basic | 10,266 | 8,587 | 10,214 | 8,560 |
| Weighted average common shares outstanding - diluted | 10,266 | 8,587 | 10,214 | 8,560 |

Digimarc Corporation
Consolidated Balance Sheet Information
(in thousands)
(Unaudited)

| | June 30, 2017 | December 31, 2016 |
|---|--------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents ⁽¹⁾ | \$ 34,242 | \$ 11,638 |
| Marketable securities ⁽¹⁾ | 33,513 | 44,496 |
| Trade accounts receivable, net | 3,897 | 5,078 |
| Other current assets | 1,858 | 1,695 |
| Total current assets | 73,510 | 62,907 |
| Marketable securities ⁽¹⁾ | - | 4,392 |
| Property and equipment, net | 3,846 | 3,570 |
| Intangibles, net | 6,416 | 6,422 |
| Goodwill | 1,114 | 1,114 |
| Other assets | 281 | 331 |
| Total assets | \$ 85,167 | \$ 78,736 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Accounts payable and other accrued liabilities | \$ 1,731 | \$ 1,523 |
| Deferred revenue | 2,121 | 2,923 |
| Total current liabilities | 3,852 | 4,446 |
| Deferred rent and other long-term liabilities | 1,029 | 956 |
| Total liabilities | 4,881 | 5,402 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock | 50 | 50 |
| Common stock | 11 | 11 |
| Additional paid-in capital | 141,123 | 120,985 |
| Accumulated deficit | (60,898) | (47,712) |
| Total shareholders' equity | 80,286 | 73,334 |
| Total liabilities and shareholders' equity | \$ 85,167 | \$ 78,736 |

(1) Aggregate cash, cash equivalents, short- and long-term marketable securities was \$67,755 and \$60,526 at June 30, 2017 and December 31, 2016, respectively.

Digimarc Corporation
Consolidated Cash Flow Information
(in thousands)
(Unaudited)

| | Six Month Information | |
|---|-----------------------|-------------------|
| | June 30, 2017 | June 30, 2016 |
| Cash flows from operating activities: | | |
| Net loss | \$ (13,161) | \$ (10,718) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation, amortization and write-off of property and equipment | 664 | 688 |
| Amortization and write-off of intangibles | 486 | 639 |
| Stock-based compensation | 3,093 | 2,707 |
| Changes in operating assets and liabilities: | | |
| Trade accounts receivable | 1,181 | 2,139 |
| Other current assets | (163) | 52 |
| Other assets | 50 | 36 |
| Accounts payable and other accrued liabilities | 336 | 109 |
| Deferred revenue | (835) | (917) |
| Net cash used in operating activities | <u>(8,349)</u> | <u>(5,265)</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (938) | (755) |
| Capitalized patent costs | (406) | (436) |
| Maturity of marketable securities | 28,636 | 22,467 |
| Purchase of marketable securities | (13,261) | (8,819) |
| Net cash provided by investing activities | <u>14,031</u> | <u>12,457</u> |
| Cash flows from financing activities: | | |
| Issuance of common stock, net of issuance costs | 17,702 | - |
| Exercise of stock options | 568 | 309 |
| Purchase of common stock | (1,348) | (1,104) |
| Net cash provided by (used in) financing activities | <u>16,922</u> | <u>(795)</u> |
| Net increase in cash and cash equivalents ⁽²⁾ | <u>\$ 22,604</u> | <u>\$ 6,397</u> |
| Cash, cash equivalents and marketable securities at beginning of period | 60,526 | 39,186 |
| Cash, cash equivalents and marketable securities at end of period | <u>67,755</u> | <u>31,935</u> |
| (2) Net increase (decrease) in cash, cash equivalents and marketable securities | <u>\$ 7,229</u> | <u>\$ (7,251)</u> |