

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

	Three Month Information		Nine Month Information	
	September 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Revenue:				
Service	\$ 2,986	\$ 3,252	\$ 9,935	\$ 9,650
Subscription	1,306	1,417	4,171	4,374
License	4,385	907	6,249	2,589
Total revenue	<u>8,677</u>	<u>5,576</u>	<u>20,355</u>	<u>16,613</u>
Cost of revenue:				
Service	1,332	1,455	4,431	4,288
Subscription	611	600	1,701	1,856
License	129	107	369	302
Total cost of revenue	<u>2,072</u>	<u>2,162</u>	<u>6,501</u>	<u>6,446</u>
Gross profit:				
Service	1,654	1,797	5,504	5,362
Subscription	695	817	2,470	2,518
License	4,256	800	5,880	2,287
Total gross profit	<u>6,605</u>	<u>3,414</u>	<u>13,854</u>	<u>10,167</u>
Gross margin:				
Service	55%	55%	55%	56%
Subscription	53%	58%	59%	58%
License	97%	88%	94%	88%
Percentage of gross profit to total revenue	76%	61%	68%	61%
Operating expenses:				
Sales and marketing	4,075	2,945	12,064	8,756
Research, development and engineering	4,108	3,291	11,503	9,975
General and administrative	2,442	2,039	7,066	6,185
Intellectual property	387	394	1,124	1,290
Total operating expenses	<u>11,012</u>	<u>8,669</u>	<u>31,757</u>	<u>26,206</u>
Operating loss	(4,407)	(5,255)	(17,903)	(16,039)
Other income, net	<u>174</u>	<u>69</u>	<u>408</u>	<u>157</u>
Loss before income taxes	(4,233)	(5,186)	(17,495)	(15,882)
Benefit (provision) for income taxes	(7)	(12)	94	(34)
Net loss	<u>\$ (4,240)</u>	<u>\$ (5,198)</u>	<u>\$ (17,401)</u>	<u>\$ (15,916)</u>
Earnings (loss) per common share:				
Loss per common share - basic	\$ (0.39)	\$ (0.55)	\$ (1.67)	\$ (1.79)
Loss per common share - diluted	\$ (0.39)	\$ (0.55)	\$ (1.67)	\$ (1.79)
Weighted average common shares outstanding - basic	10,797	9,506	10,410	8,878
Weighted average common shares outstanding - diluted	10,797	9,506	10,410	8,878

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

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents ⁽¹⁾	\$ 25,599	\$ 11,638
Marketable securities ⁽¹⁾	35,288	44,496
Trade accounts receivable, net	7,030	5,078
Other current assets	2,177	1,695
Total current assets	70,094	62,907
Marketable securities ⁽¹⁾	-	4,392
Property and equipment, net	4,273	3,570
Intangibles, net	6,369	6,422
Goodwill	1,114	1,114
Other assets	311	331
Total assets	\$ 82,161	\$ 78,736
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 2,071	\$ 1,523
Deferred revenue	1,717	2,923
Total current liabilities	3,788	4,446
Deferred rent and other long-term liabilities	989	956
Total liabilities	4,777	5,402
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	50	50
Common stock	11	11
Additional paid-in capital	142,461	120,985
Accumulated deficit	(65,138)	(47,712)
Total shareholders' equity	77,384	73,334
Total liabilities and shareholders' equity	\$ 82,161	\$ 78,736

(1) Aggregate cash, cash equivalents, short- and long-term marketable securities was \$60,887 and \$60,526 at September 30, 2017 and December 31, 2016, respectively.

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

	Nine Month Information	
	September 30, 2017	September 30, 2016
Cash flows from operating activities:		
Net loss	\$ (17,401)	\$ (15,916)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and write-off of property and equipment	1,024	1,016
Amortization and write-off of intangibles	775	876
Stock-based compensation	4,872	4,162
Changes in operating assets and liabilities:		
Trade accounts receivable	(1,952)	2,095
Other current assets	(482)	(437)
Other assets	20	(56)
Accounts payable and other accrued liabilities	373	680
Deferred revenue	(1,247)	(1,407)
Net cash used in operating activities	(14,018)	(8,987)
Cash flows from investing activities:		
Purchase of property and equipment	(1,424)	(1,565)
Capitalized patent costs	(625)	(623)
Maturity of marketable securities	41,231	35,182
Purchase of marketable securities	(27,631)	(40,817)
Net cash provided by (used in) investing activities	11,551	(7,823)
Cash flows from financing activities:		
Issuance of common stock, net of issuance costs	17,698	39,700
Exercise of stock options	793	476
Purchase of common stock	(2,063)	(1,879)
Net cash provided by financing activities	16,428	38,297
Net increase in cash and cash equivalents ⁽²⁾	\$ 13,961	\$ 21,487
Cash, cash equivalents and marketable securities at beginning of period	60,526	39,186
Cash, cash equivalents and marketable securities at end of period	60,887	66,308
(2) Net increase in cash, cash equivalents and marketable securities	\$ 361	\$ 27,122