

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

	Three Month Information		Nine Month Information	
	September 30, 2019	September 30, 2018	September 30, 2019	September 30, 2018
Revenue:				
Service	\$ 3,003	\$ 2,787	\$ 10,167	\$ 9,630
Subscription	2,273	1,532	5,924	4,554
License	552	595	1,577	1,781
Total revenue	<u>5,828</u>	<u>4,914</u>	<u>17,668</u>	<u>15,965</u>
Cost of revenue:				
Service	1,287	1,301	4,371	4,412
Subscription	459	480	1,369	1,470
License	172	154	497	443
Total cost of revenue	<u>1,918</u>	<u>1,935</u>	<u>6,237</u>	<u>6,325</u>
Gross profit:				
Service	1,716	1,486	5,796	5,218
Subscription	1,814	1,052	4,555	3,084
License	380	441	1,080	1,338
Total gross profit	<u>3,910</u>	<u>2,979</u>	<u>11,431</u>	<u>9,640</u>
Gross margin:				
Service	57%	53%	57%	54%
Subscription	80%	69%	77%	68%
License	69%	74%	68%	75%
Percentage of gross profit to total revenue	67%	61%	65%	60%
Operating expenses:				
Sales and marketing	4,839	4,741	14,876	14,385
Research, development and engineering	4,105	4,069	12,124	12,074
General and administrative	2,656	2,447	8,194	7,495
Intellectual property	342	328	1,093	948
Total operating expenses	<u>11,942</u>	<u>11,585</u>	<u>36,287</u>	<u>34,902</u>
Operating loss	(8,032)	(8,606)	(24,856)	(25,262)
Other income, net	259	273	727	799
Loss before income taxes	(7,773)	(8,333)	(24,129)	(24,463)
Benefit (provision) for income taxes	12	(9)	(28)	(29)
Net loss	<u>\$ (7,761)</u>	<u>\$ (8,342)</u>	<u>\$ (24,157)</u>	<u>\$ (24,492)</u>
Earnings (loss) per common share:				
Loss per common share - basic	\$ (0.65)	\$ (0.73)	\$ (2.07)	\$ (2.16)
Loss per common share - diluted	\$ (0.65)	\$ (0.73)	\$ (2.07)	\$ (2.16)
Weighted average common shares outstanding - basic	11,924	11,394	11,693	11,333
Weighted average common shares outstanding - diluted	11,924	11,394	11,693	11,333

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

	September 30, 2019	December 31, 2018
Assets		
Current assets:		
Cash and cash equivalents ⁽¹⁾	\$ 16,414	\$ 27,278
Marketable securities ⁽¹⁾	24,921	16,378
Trade accounts receivable, net	3,570	3,888
Other current assets	2,882	2,100
Total current assets	47,787	49,644
Marketable securities ⁽¹⁾	1,497	—
Property and equipment, net	3,594	3,955
Intangibles, net	6,723	6,649
Goodwill	1,114	1,114
Other assets	2,871	425
Total assets	\$ 63,586	\$ 61,787
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 2,615	\$ 1,092
Deferred revenue	2,391	3,226
Total current liabilities	5,006	4,318
Deferred rent and other long-term liabilities	2,739	854
Total liabilities	7,745	5,172
Commitments and contingencies		
Shareholders' equity:		
Preferred stock	50	50
Common stock	12	12
Additional paid-in capital	185,811	162,428
Accumulated deficit	(130,032)	(105,875)
Total shareholders' equity	55,841	56,615
Total liabilities and shareholders' equity	\$ 63,586	\$ 61,787

(1) Aggregate cash, cash equivalents and marketable securities was \$42,832 and \$43,656 at September 30, 2019 and December 31, 2018, respectively.

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

	Nine Month Information	
	September 30, 2019	September 30, 2018
Cash flows from operating activities:		
Net loss	\$ (24,157)	\$ (24,492)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and write-off of property and equipment	1,098	1,167
Amortization and write-off of intangibles	533	437
Stock-based compensation	6,094	5,345
Changes in operating assets and liabilities:		
Trade accounts receivable	318	3,447
Other current assets	(782)	(261)
Other assets	263	(148)
Accounts payable and other accrued liabilities	1,086	(299)
Deferred revenue	(735)	(1,225)
Lease liability and other long-term liabilities	(481)	(75)
Net cash used in operating activities	<u>(16,763)</u>	<u>(16,104)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(692)	(1,023)
Capitalized patent costs	(524)	(571)
Maturity of marketable securities	27,997	30,179
Purchase of marketable securities	<u>(38,037)</u>	<u>(18,904)</u>
Net cash provided by (used in) investing activities	(11,256)	9,681
Cash flows from financing activities:		
Issuance of common stock, net of issuance costs	19,615	—
Exercise of stock options	293	1,064
Purchase of common stock	<u>(2,753)</u>	<u>(1,689)</u>
Net cash provided by (used in) financing activities	17,155	(625)
Net decrease in cash and cash equivalents ⁽²⁾	<u>\$ (10,864)</u>	<u>\$ (7,048)</u>
Cash, cash equivalents and marketable securities at beginning of period	43,656	67,738
Cash, cash equivalents and marketable securities at end of period	<u>42,832</u>	<u>49,415</u>
(2) Net decrease in cash, cash equivalents and marketable securities	<u>\$ (824)</u>	<u>\$ (18,323)</u>