Before we proceed, please note that during the course of this presentation we will be making certain forward-looking statements. These statements are subject to many assumptions, risks, uncertainties and changes in circumstances. Any assumptions we offer about future performance represent a point-in-time estimate. Actual results may vary materially from those expressed or implied by such statements. We expressly disclaim any obligation to revise or update any assumptions, projections, or other forward-looking statements to reflect events or circumstances that may arise after the date of this presentation.

For more detailed information about risk factors that may cause actual results to differ from expectations, please see the company’s filings with the Securities and Exchange Commission, including our most recent Form 10-Q or 10-K.
Overview

Vision and Mission
• Teach mobile devices to see, hear, and understand by providing digital identities for all media objects

Legacy
• Digital watermarking R&D
• Deter counterfeiting of currency
• Produce government-issued IDs
• Improve audience measurement for television and radio
• Protect movies and ebooks from piracy

Current Focus
• Enable mobile devices to see, hear, understand, and deliver context sensitive network services
• Provide successor to barcodes in packaging
• Facilitate universal automatic object identification by all computer interfaces

Core Strengths
• Signal processing expertise; pioneer in digital watermarking
• Stable professional workforce
• Large, high quality patent portfolio

Financial Performance
• Profitable, cash flow positive
• Surplus cash and no debt
• Returned over $310mm in cash to shareholders
• Quarterly dividends
• Ongoing stock buybacks
Our History: Security, Management, and Measurement

Counterfeit Deterrence
- Globally deployed system to deter counterfeiting of money
- Customer is consortium of leading central banks, since 1997
- ~$10 million annual revenues

Piracy Deterrence
- Movies (digital cinema; Blu-Ray; Video On Demand)
- E-books (Attributor acquisition in 2012)

Government Issued IDs
- Divested in 2008

Audience Measurement
- TV (Nielsen)
- Radio (Arbitron)
Guardian – Security Solutions

Globally deployed banknote counterfeit deterrence

Copyright protection and licensing for digital images

Anti-piracy for movies (via various licensed suppliers)

Leading anti-piracy solution for book publishing industry

• 90 customers, including 8 of top 10 book publishers; 350,000 titles under management
• 50 million sites crawled daily; 250,000 takedowns/month, with 95% success rate
Audience

- TV and Radio
  - Audience measurement
  - Second screen and connected TV
- Music
  - Mobile music recognition
  - Interactive radio advertising
- Publishing
  - Basics of social networking
  - Metrics to clients
**Digimarc Discover – From Search to Discovery**

**search** \sərch\ *v.* to look into or over carefully or thoroughly in an effort to find or discover something

**discover** \dɪs-'kə-vər\ *v.* to make known or visible

- Google keyword search changed the world when desktop computing was dominant
- Mobile search is overtaking desktop search
- Text-typing does not work well for mobile devices
- Mobile is the future and **Digimarc Discover** is ideally suited to mobile

**U.S. Local Search Market: Mobile vs. Desktop**

![Graph showing growth in U.S. Local Search Market: Mobile vs. Desktop](image-url)
Discovery is Next Step in Evolution of Search

- Magazine Print to Web
- Interactive Catalogs, Inserts, and Direct Mail
- Mobile Discovery as Music Retail
- Multi-Screen Synchronized TV
- Network Enabled Packaging
- Omni-Channel Marketing
Market Opportunity for DUO ID

- Massive technologically-motivated changes underway
- Expansion of networks giving rise to “digital consumer”
- Computers historically blind and deaf
- If they could “see” and “hear” like humans, implications would be immense
- In networks:
  - Recognize images of money and refuse to allow counterfeiting
  - Recognize television shows and radio broadcasts for more accurate audience measurement
  - Prevent unauthorized copying and playback of movies
- In mobile devices:
  - Encourage implementation of “seeing” and “hearing” as routine functions
  - Connect instantly and automatically from media of all kinds to relevant network services
  - Provide auxiliary data channel over existing content delivery channels, enabling retailers/marketers to provide value-added services to consumers’ mobile devices
  - Reduce dependence on keywords and thumb typing
  - Convert much of search into discovery
  - Lay foundation for a pervasive more intuitive computing model and UI
  - Computers increasingly augment our senses on way to “cognitive computing” future
- DUO ID: Digimarc Universal Object Identification framework
Market Opportunity: Cognitive Computing

“IN FIVE YEARS computers will be able to not only **LOOK** at images but understand them.”

Dr. John R. Smith  
Senior Manager  
Intelligent Information Management, **IBM**

“IN FIVE YEARS computers will **HEAR** what matters.”

Dr. Dimitri Kanevsky  
Master Inventor, **IBM**
Smartphones: Our Digital “Eyes” and “Ears”

- **GPS**
  - Knows where you are

- **Accelerometer & Gyroscope**
  - Responds to motion

- **Proximity Sensor**
  - Senses closeness

- **Network Access**
  - High speed connectivity

- **Camera**
  - Means to “see” and recognize media objects

- **Microphone**
  - Means to “hear” and recognize audio

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**Percentage of Respondents that Own Smartphones**

- 2008: 4%
- 2009: 11%
- 2010: 16%
- 2011: 24%

Source: InfoTrends, April 2011

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**Google Search Volume**

Source: Google, June 2011
DUO ID: Digimarc Universal Object Identification System

- Technical and commercial feasibility of DUO ID has been established in television, radio, movies, music, digital images, banknotes, identification documents, stamps, magazines, and books

- Nearing commercialization in Consumer Package Goods (CPG) - last frontier of feasibility demonstrations

- Unified software platform known as Intuitive Computing Platform (“ICP”) under development

- Software platform for consumer devices, professional fixed and handheld retail scanners, and other network interfaces that automatically identify media objects

- We expect to establish commercial feasibility of barcode replacement for CPG and initial integration of basic ICP platform elements in 2013
  - Encoding via self-service web portal (“SaaS”) for publications, packaging, music, radio and TV
  - Decoding software for consumer devices and professional fixed and handheld retail scanners
  - Network services for routing of identifying data and network services

- Culmination of our R&D is virtual brand interface for customers and prospects
  - Broad facilitation of shopper journey
  - All touch-points enabled for easy access to network services
“The process that shoppers go through has forever changed, becoming more complex and multifaceted. No longer do shoppers traverse a linear path; rather we see a highly dynamic journey to purchase, one characterized by reiterations in product considerations, i.e., a tumbler effect rather than a funnel.”

- The New Shopper, Carat/Microsoft, 2011
Smartphones Used For Mobile Search At The Beginning Of The Shopping Process

- **Mobile Phone**:
  - In The Beginning: 22%
  - At The End: 12%
  - In The Middle: 21%
- **Tablet**:
  - In The Beginning: 24%
  - At The End: 17%
  - In The Middle: 29%

*Source: 15 MILES/Localize Local Search Study Via Greg Sterling, Released Q1 2012*
Virtual Brand Interface Empowers Modern Shoppers Journey

- Digimarc DUO ID and ICP allow creation of pervasive intuitive virtual interface between brands and consumers
- Effortless Discovery via mobile devices across all touch points of the Journey

- Increased engagement via simple intuitive connection to network services
- Opportunities to impulse purchase anywhere in Shopper’s Journey
The Barcode is Obsolete

- In 1969, representatives of the Grocery Manufacturers of America and the National Association of Food Chains met to discuss an “inter-industry product code.”
- They needed a universal identification means for digital devices to recognize products to automate check out.
- Fifty years later, the barcode (“UPC”) is a near universal means to identify packages and products at retail and elsewhere in the supply chain.

DUO ID for Consumer Packaging

- Next generation Automatic Identification and Data Capture (“AIDC”)
- An invisible barcode with superior performance characteristics
  - Faster checkout, lower costs, with less manual effort and training
  - Smartphone readability enhances consumer engagement throughout Shopper Journey
  - Frees valuable package real estate and reduces product loss due to barcode forgery or damage

Digimarc has Been Here Before

- In 1997, representatives of leading Central Banks visited Digimarc
- They needed a secure universal identification means for digital devices to recognize banknotes to deter counterfeiting
- Fifteen years later, a global counterfeit system is in place
Key Market Drivers of Barcode Replacement

- Retailers Entering Upgrade Cycle
- Retailers Focusing on "Omni-Channel Retailing"
- Advanced Printing Techniques
- Proliferation of Mobile Devices
- Expanding Connectivity/Bandwidth
- RFID is DOA
- Mobile Platform Advancements
- Significant Watermarking Technology Improvements
- Checkout Scanners Adding Imaging Capability

Digimarc Consumer Packaging Opportunity
Digimarc Gaining Traction in Magazines

- Number of digital watermarks in magazine editorial and advertising content grew from 360 in 2011 to 2,110 in 2012.
- Number of titles using digital watermarking grew from 13 to 41 resulting in addressable circulation of over 37 million.
- Total scans of watermarked content grew to over 1.6 million – up from 65K in 2011.
- Digimarc Discover app downloads grew to 122K; total downloads of Digimarc Discover enabled apps estimated at over 500K.
- Shopping, video and sweepstakes most popular scan incentives.
Migration of Seeing/Hearing into Operating Systems

**Networks**
- Banknote counterfeit deterrence
- Movie anti-piracy
- TV and radio audience measurement

**Consumer Mobile Devices**
- Digimarc Discover
- Shazam and Soundhound
- Scanlife
- Amazon search
- Bing search
- Google Goggles and Ears

**Professional Fixed and Handheld Retail Scanners**
- Digimarc Discover
The ICP “Omnibus”

- Examples of some ICP themes
  - Sensor fusion and sensor data driven processing
  - Routing of sensor data to remote processing agents
  - Creating marketplace for services around recognition events
  - Inference – e.g., driving signal processing and UI behavior based on intent inferred from context

- 863 patents issued
- 415 applications pending
- 1,278 total patent assets
- Unprecedented rate of patent filings
Key Performance Indicators

- Large high growth target markets
- Ground-breaking R&D
- 1300 patents issued and pending
- Acquired Attributor in December 2012; entry into rapidly growing ebook market

Key financial measures: 2012
- Revenues: $44 million
- EPS: $1.12
- EBITDAS: $19.7 million
- Cash: $39 million
- Debt: None
- Current ratio: 10.3:1

Shareholder Friendly
- Over $300 million cash returned to shareholders so far
- Quarterly dividend $0.11/share; 2.1% yield
- 1.3 million shares repurchased in last four years
- All employees are shareholders; insider ownership > 14%

Valuation
- P/E: 18x
- EV: $109.3 million
- EV/Revs: 2.5x
Investment Considerations

• Large target market opportunities

• Consolidation of first 15 years of R&D in 2013 in DUO ID and ICP

• DUO ID and ICP anticipate and enable next wave of search and UI designs

• Clear strategy, strong patent position, plenty of capital

• History of rapid growth and rich shareholders rewards
  • 1999-2008: $1mm to $120mm
  • August 2008: Sale of ID Systems division for $310mm cash
  • 2008-2012: $19mm to $44mm

• Technical prowess to keep innovating and further grow revenues and profits
Thank You