

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenue:				
Subscription	\$ 4,678	\$ 3,244	\$ 8,563	\$ 7,035
Service	4,052	4,503	8,010	8,123
Total revenue	8,730	7,747	16,573	15,158
Cost of revenue:				
Subscription (1)	771	886	1,566	1,928
Service (1)	1,968	1,744	3,683	3,575
Amortization expense on acquired intangible assets	1,122	1,120	2,211	2,314
Total cost of revenue	3,861	3,750	7,460	7,817
Gross profit:				
Subscription (1)	3,907	2,358	6,997	5,107
Service (1)	2,084	2,759	4,327	4,548
Amortization expense on acquired intangible assets	(1,122)	(1,120)	(2,211)	(2,314)
Total gross profit	4,869	3,997	9,113	7,341
Gross profit margin:				
Subscription (1)	84%	73%	82%	73%
Service (1)	51%	61%	54%	56%
Total gross profit margin	56%	52%	55%	48%
Operating expenses:				
Sales and marketing	5,106	8,073	11,404	16,018
Research, development and engineering	6,161	6,065	13,987	12,156
General and administrative	4,352	4,487	8,979	10,895
Amortization expense on acquired intangible assets	268	321	528	663
Impairment of lease right of use assets and leasehold improvements	250	-	250	574
Total operating expenses	16,137	18,946	35,148	40,306
Operating loss	(11,268)	(14,949)	(26,035)	(32,965)
Other income, net	647	93	1,392	89
Loss before income taxes	(10,621)	(14,856)	(24,643)	(32,876)
(Provision) benefit for income taxes	(2)	217	(20)	456
Net loss	\$ (10,623)	\$ (14,639)	\$ (24,663)	\$ (32,420)
Loss per share:				
Loss per share — basic	\$ (0.53)	\$ (0.75)	\$ (1.23)	\$ (1.76)
Loss per share — diluted	\$ (0.53)	\$ (0.75)	\$ (1.23)	\$ (1.76)
Weighted average shares outstanding — basic	20,162	19,539	20,128	18,448
Weighted average shares outstanding — diluted	20,162	19,539	20,128	18,448

(1) Cost of revenue, Gross profit and Gross profit margin for Service and Subscription excludes amortization expense on acquired intangible assets.

Digimarc Corporation
Reconciliation of GAAP to Non-GAAP Financial Measures
(in thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
GAAP gross profit	\$ 4,869	\$ 3,997	\$ 9,113	\$ 7,341
Amortization of acquired intangible assets	1,122	1,120	2,211	2,314
Amortization and write-off of other intangible assets	146	144	290	285
Stock-based compensation	318	265	556	466
Non-GAAP gross profit	\$ 6,455	\$ 5,526	\$ 12,170	\$ 10,406
Non-GAAP gross profit margin	74%	71%	73%	69%
GAAP operating expenses	\$ 16,137	\$ 18,946	\$ 35,148	\$ 40,306
Depreciation and write-off of property and equipment	(260)	(330)	(688)	(720)
Amortization of acquired intangible assets	(268)	(321)	(528)	(663)
Amortization and write-off of other intangible assets	(9)	(29)	(48)	(59)
Amortization of lease right of use assets under operating leases	(166)	(249)	(332)	(520)
Stock-based compensation	(2,260)	(3,009)	(4,898)	(5,276)
Impairment of lease right of use assets and leasehold improvements	(250)	—	(250)	(574)
Acquisition-related expenses	—	(3)	—	(447)
Non-GAAP operating expenses	\$ 12,924	\$ 15,005	\$ 28,404	\$ 32,047
GAAP net loss	\$ (10,623)	\$ (14,639)	\$ (24,663)	\$ (32,420)
Total adjustments to gross profit	1,586	1,529	3,057	3,065
Total adjustments to operating expenses	3,213	3,941	6,744	8,259
Non-GAAP net loss	\$ (5,824)	\$ (9,169)	\$ (14,862)	\$ (21,096)
GAAP loss per share (diluted)	\$ (0.53)	\$ (0.75)	\$ (1.23)	\$ (1.76)
Non-GAAP net loss	\$ (5,824)	\$ (9,169)	\$ (14,862)	\$ (21,096)
Non-GAAP loss per share (diluted)	\$ (0.29)	\$ (0.47)	\$ (0.74)	\$ (1.14)

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

	June 30, 2023	December 31, 2022
ASSETS		
Current assets:		
Cash and cash equivalents (1)	\$ 26,825	\$ 33,598
Marketable securities (1)	7,717	18,944
Trade accounts receivable, net	11,981	5,427
Other current assets	4,445	6,172
Total current assets	50,968	64,141
Property and equipment, net	1,775	2,390
Intangibles, net	31,421	33,170
Goodwill	8,568	8,229
Lease right of use assets	4,202	4,720
Other assets	1,388	1,127
Total assets	\$ 98,322	\$ 113,777
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 5,162	\$ 5,989
Deferred revenue	8,101	4,145
Total current liabilities	13,263	10,134
Long-term lease liabilities	6,066	5,977
Other long-term liabilities	355	76
Total liabilities	19,684	16,187
Shareholders' equity:		
Preferred stock	50	50
Common stock	20	20
Additional paid-in capital	371,893	367,692
Accumulated deficit	(290,472)	(265,809)
Accumulated other comprehensive loss	(2,853)	(4,363)
Total shareholders' equity	78,638	97,590
Total liabilities and shareholders' equity	\$ 98,322	\$ 113,777

(1) Aggregate cash, cash equivalents, and marketable securities was \$52,542 and \$41,618 at December 31, 2022 and December 31, 2021, respectively.

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

	Six Months Ended June 30,	
	2023	2022
Cash flows from operating activities:		
Net loss	\$ (24,663)	\$ (32,420)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and write-off of property and equipment	688	720
Amortization of acquired intangible assets	2,739	2,977
Amortization and write-off of other intangible assets	338	344
Amortization of lease right of use assets under operating leases	332	520
Stock-based compensation	5,454	5,742
Impairment of lease right of use assets and leasehold improvements	250	574
Changes in operating assets and liabilities:		
Trade accounts receivable	(6,492)	1,776
Other current assets	1,827	(600)
Other assets	(268)	(568)
Accounts payable and other accrued liabilities	(839)	(2,881)
Deferred revenue	4,106	(1,043)
Lease liability and other long-term liabilities	38	(808)
Net cash used in operating activities	(16,490)	(25,667)
Cash flows from investing activities:		
Net cash paid for acquisition	—	(3,512)
Purchase of property and equipment	(121)	(716)
Capitalized patent costs	(198)	(271)
Proceeds from maturities of marketable securities	19,984	11,148
Purchases of marketable securities	(8,664)	(4,908)
Net cash provided by investing activities	11,001	1,741
Cash flows from financing activities:		
Issuance of common stock, net of issuance costs	—	58,220
Purchase of common stock	(1,280)	(974)
Repayment of loans	(16)	(17)
Net cash (used in) provided by financing activities	(1,296)	57,229
Effect of exchange rate on cash	12	(41)
Net (decrease) increase in cash and cash equivalents (2)	\$ (6,773)	\$ 33,262
Cash, cash equivalents and marketable securities at beginning of period	52,542	41,618
Cash, cash equivalents and marketable securities at end of period	34,542	68,390
(2) Net (decrease) increase in cash, cash equivalents and marketable securities	\$ (18,000)	\$ 26,772