

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2023	2022	2023	2022
Revenue:				
Subscription	\$ 4,811	\$ 4,086	\$ 13,374	\$ 11,121
Service	4,183	3,735	12,193	11,858
Total revenue	8,994	7,821	25,567	22,979
Cost of revenue:				
Subscription ⁽¹⁾	698	1,006	2,264	2,934
Service ⁽¹⁾	1,938	1,602	5,621	5,177
Amortization expense on acquired intangible assets	1,135	1,048	3,346	3,362
Total cost of revenue	3,771	3,656	11,231	11,473
Gross profit:				
Subscription ⁽¹⁾	4,113	3,080	11,110	8,187
Service ⁽¹⁾	2,245	2,133	6,572	6,681
Amortization expense on acquired intangible assets	(1,135)	(1,048)	(3,346)	(3,362)
Total gross profit	5,223	4,165	14,336	11,506
Gross profit margin:				
Subscription ⁽¹⁾	85%	75%	83%	74%
Service ⁽¹⁾	54%	57%	54%	56%
Total	58%	53%	56%	50%
Operating expenses:				
Sales and marketing	5,366	7,684	16,770	23,702
Research, development and engineering	6,308	7,575	20,295	19,731
General and administrative	4,433	4,132	13,412	15,027
Amortization expense on acquired intangible assets	272	301	800	964
Impairment of lease right of use assets and leasehold improvements	—	—	250	574
Total operating expenses	16,379	19,692	51,527	59,998
Operating loss	(11,156)	(15,527)	(37,191)	(48,492)
Other income, net	478	623	1,870	1,214
Loss before income taxes	(10,678)	(14,904)	(35,321)	(47,278)
Provision for income taxes	(45)	(26)	(65)	(72)
Net loss	<u>\$ (10,723)</u>	<u>\$ (14,930)</u>	<u>\$ (35,386)</u>	<u>\$ (47,350)</u>
Loss per share:				
Loss per share — basic	\$ (0.53)	\$ (0.76)	\$ (1.76)	\$ (2.51)
Loss per share — diluted	\$ (0.53)	\$ (0.76)	\$ (1.76)	\$ (2.51)
Weighted average shares outstanding — basic	20,217	19,721	20,158	18,877
Weighted average shares outstanding — diluted	20,217	19,721	20,158	18,877

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

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

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2023</u>	<u>2022</u>	<u>2023</u>	<u>2022</u>
<u>GAAP gross profit</u>	\$ 5,223	\$ 4,165	\$ 14,336	\$ 11,506
Amortization of acquired intangible assets	1,135	1,048	3,346	3,362
Amortization and write-off of other intangible assets	143	145	433	430
Stock-based compensation	310	270	866	736
Non-GAAP gross profit	\$ 6,811	\$ 5,628	\$ 18,981	\$ 16,034
Non-GAAP gross profit margin	76%	72%	74%	70%
<u>GAAP operating expenses</u>	\$ 16,379	\$ 19,692	\$ 51,527	\$ 59,998
Depreciation and write-off of property and equipment	(223)	(316)	(911)	(1,036)
Amortization of acquired intangible assets	(272)	(301)	(800)	(964)
Amortization and write-off of other intangible assets	(228)	(4)	(276)	(63)
Amortization of lease right of use assets under operating leases	(94)	(248)	(426)	(768)
Stock-based compensation	(2,382)	(3,298)	(7,280)	(8,574)
Impairment of lease right of use assets and leasehold improvements	—	—	(250)	(574)
Acquisition-related expenses	—	—	—	(447)
Non-GAAP operating expenses	\$ 13,180	\$ 15,525	\$ 41,584	\$ 47,572
<u>GAAP net loss</u>	\$ (10,723)	\$ (14,930)	\$ (35,386)	\$ (47,350)
Total adjustments to gross profit	1,588	1,463	4,645	4,528
Total adjustments to operating expenses	3,199	4,167	9,943	12,426
Non-GAAP net loss	\$ (5,936)	\$ (9,300)	\$ (20,798)	\$ (30,396)
<u>GAAP loss per share (diluted)</u>	\$ (0.53)	\$ (0.76)	\$ (1.76)	\$ (2.51)
Non-GAAP net loss	\$ (5,936)	\$ (9,300)	\$ (20,798)	\$ (30,396)
Non-GAAP loss per share (diluted)	\$ (0.29)	\$ (0.47)	\$ (1.03)	\$ (1.61)

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

	<u>September 30,</u> <u>2023</u>	<u>December 31,</u> <u>2022</u>
ASSETS		
Current assets:		
Cash and cash equivalents ⁽¹⁾	\$ 32,335	\$ 33,598
Marketable securities ⁽¹⁾	996	18,944
Trade accounts receivable, net	7,042	5,427
Other current assets	4,578	6,172
Total current assets	44,951	64,141
Property and equipment, net	1,656	2,390
Intangibles, net	28,977	33,170
Goodwill	8,323	8,229
Lease right of use assets	4,108	4,720
Other assets	827	1,127
Total assets	\$ 88,842	\$ 113,777
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 6,207	\$ 5,989
Deferred revenue	7,315	4,145
Total current liabilities	13,522	10,134
Long-term lease liabilities	6,170	5,977
Other long-term liabilities	267	76
Total liabilities	19,959	16,187
Shareholders' equity:		
Preferred stock	50	50
Common stock	20	20
Additional paid-in capital	373,844	367,692
Accumulated deficit	(301,195)	(265,809)
Accumulated other comprehensive loss	(3,836)	(4,363)
Total shareholders' equity	68,883	97,590
Total liabilities and shareholders' equity	\$ 88,842	\$ 113,777

⁽¹⁾ Aggregate cash, cash equivalents, and marketable securities was \$33,331 and \$34,542 at September 30, 2023 and June 30, 2023, respectively.

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

	<u>Nine Months Ended September</u> <u>30,</u>	
	<u>2023</u>	<u>2022</u>
Cash flows from operating activities:		
Net loss	\$ (35,386)	\$ (47,350)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and write-off of property and equipment	911	1,036
Amortization of acquired intangible assets	4,146	4,326
Amortization and write-off of other intangible assets	709	493

Amortization of lease right of use assets under operating leases	426	768
Stock-based compensation	8,146	9,310
Impairment of lease right of use assets and leasehold improvements	250	574
Changes in operating assets and liabilities:		
Trade accounts receivable	(1,581)	(241)
Other current assets	1,688	(2,233)
Other assets	279	(611)
Accounts payable and other accrued liabilities	299	(2,153)
Deferred revenue	3,298	233
Lease liability and other long-term liabilities	136	(1,040)
Net cash used in operating activities	(16,679)	(36,888)
Cash flows from investing activities:		
Net cash paid for acquisition	—	(3,512)
Purchase of property and equipment	(208)	(783)
Capitalized patent costs	(295)	(404)
Proceeds from maturities of marketable securities	26,696	17,498
Purchases of marketable securities	(8,664)	(5,873)
Net cash provided by investing activities	17,529	6,926
Cash flows from financing activities:		
Issuance of common stock, net of issuance costs	—	58,220
Purchase of common stock	(2,036)	(1,560)
Repayment of loans	(33)	(32)
Net cash (used in) provided by financing activities	(2,069)	56,628
Effect of exchange rate on cash	(44)	(100)
Net (decrease) increase in cash and cash equivalents ⁽²⁾	<u>\$ (1,263)</u>	<u>\$ 26,566</u>
Cash, cash equivalents and marketable securities at beginning of period	52,542	41,618
Cash, cash equivalents and marketable securities at end of period	<u>33,331</u>	<u>56,357</u>
(2) Net (decrease) increase in cash, cash equivalents and marketable securities	<u>\$ (19,211)</u>	<u>\$ 14,739</u>

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