

# DIGIMARC

## Digimarc Reports First Quarter 2025 Financial Results

Beaverton, Ore. – May 5, 2025 – [Digimarc](#) Corporation (NASDAQ: DMRC) reported financial results for the first quarter ended March 31, 2025.

“Q1 results came in above our internal plan,” said Digimarc CEO Riley McCormack. “While early, we are demonstrating that we can drive results in our much tighter focus areas while still positioning ourselves to benefit from our historical work outside these specific areas. We are excited to continue to execute against the strategy we laid out on our February 26, 2025 conference call to realize the full value of our innovative technology.”

### First Quarter 2025 Financial Results

Annual recurring revenue (ARR<sup>1</sup>) as of March 31, 2025 was \$20.0 million compared to \$23.9 million as of March 31, 2024. The \$3.9 million decrease primarily reflects a \$5.8 million decrease in ARR due to the expiration of a commercial contract in June 2024, partially offset by an increase in ARR from new and existing commercial contracts.

Subscription revenue for the first quarter of 2025 decreased to \$5.3 million compared to \$5.8 million for the first quarter of 2024, primarily reflecting \$1.1 million from the expiration of a commercial contract in June 2024, partially offset by higher subscription revenue from new and existing commercial contracts.

Service revenue for the first quarter of 2025 decreased to \$4.1 million compared to \$4.2 million for the first quarter of 2024, primarily reflecting \$0.7 million of lower government service revenue due to a smaller approved budget for program work in 2025 and the timing of program work, partially offset by \$0.4 million of higher commercial service revenue from HolyGrail 2.0 recycling projects.

Total revenue for the first quarter of 2025 decreased to \$9.4 million compared to \$9.9 million for the first quarter of 2024.

Gross profit margin for the first quarter of 2025 increased to 65% compared to 63% for the first quarter of 2024. Excluding amortization expense on acquired intangible assets, subscription gross profit margin decreased to 86% from 87%, and service gross profit margin increased to 65% from 56% for the first quarter of 2025 compared to the first quarter of 2024, respectively.

Non-GAAP gross profit margin for the first quarter of 2025 increased to 80% compared to 78% for the first quarter of 2024.

Operating expenses for the first quarter of 2025 increased to \$18.2 million compared to \$17.1 million for the first quarter of 2024, primarily reflecting \$3.2 million of higher cash severance costs incurred as a result of the reorganization we announced on February 26, 2025, and \$0.9 million of higher professional services costs, partially offset by \$1.5 million lower stock compensation costs and \$1.4 million of lower cash compensation costs due to lower headcount.

Non-GAAP operating expenses for the first quarter of 2025 increased to \$16.5 million compared to \$13.8 million for the first quarter of 2024.

Net loss for the first quarter of 2025 was \$11.7 million or (\$0.55) per share compared to \$10.3 million or (\$0.50) per share for the first quarter of 2024.

Non-GAAP net loss for the first quarter of 2025 was \$8.6 million or (\$0.40) per share compared to \$5.5 million or (\$0.27) per share for the first quarter of 2024.

At March 31, 2025, cash, cash equivalents and marketable securities totaled \$21.6 million compared to \$28.7 million at December 31, 2024. Free cash flow usage for the first quarter of 2025 decreased to \$5.6 million compared to \$8.6 million for the first quarter of 2024. Excluding the severance costs of \$2.1 million that were paid during the first quarter of 2025, free cash flow usage would have been \$3.5 million.

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(1) Annual Recurring Revenue (ARR) is a company performance metric calculated as the aggregation of annualized subscription fees from all of our commercial contracts as of the measurement date.

**Conference Call**

Digimarc will hold a conference call today (Monday, May 5, 2025) to discuss these financial results and to provide a business update. CEO Riley McCormack, CFO Charles Beck, and CLO George Karamanos will host the call starting at 5:00 p.m. Eastern time (2:00 p.m. Pacific time). A question and answer session will follow management's prepared remarks.

The conference call will be broadcast live and available for replay [here](#) and in the investor section of the company's [website](#). The conference call script will also be posted to the company's website shortly before the call.

For those who wish to call in via telephone to ask a question, please dial the number below at least five minutes before the scheduled start time:

Toll Free number: 877-407-0832

International number: 201-689-8433

Conference ID number: 13748470

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## **About Digimarc**

Digimarc Corporation (NASDAQ: DMRC) is the pioneer and global leader in digital watermarking technologies. For nearly 30 years, Digimarc innovations and intellectual property in digital watermarking have been deployed at massive scale for the identification and the authentication of physical and digital items. A notable example of this is our partnership with a consortium of the world's central banks to deter counterfeiting of global currency. Digimarc is also instrumental in supporting global industry standards efforts spanning both the physical and digital worlds. In 2023, Digimarc was named to the Fortune 2023 Change the World list and honored as a 2023 Fast Company World Changing Ideas finalist. Learn more at [Digimarc.com](https://www.digimarc.com).

## **Forward-Looking Statements**

Except for historical information contained in this release, the matters described in this release contain various "forward-looking statements." These forward-looking statements include statements identified by terminology such as "will," "should," "expects," "estimates," "predicts" and "continue" or other derivations of these or other comparable terms. These forward-looking statements are statements of management's opinion and are subject to various assumptions, risks, uncertainties and changes in circumstances. Actual results may vary materially from those expressed or implied from the statements in this release as a result of changes in economic, business and regulatory factors. More detailed information about risk factors that may affect actual results are outlined in the company's Form 10-K for the year ended December 31, 2024, and in subsequent periodic reports filed with the SEC. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date of this release. Except as required by law, Digimarc undertakes no obligation to publicly update or revise any forward-looking statements to reflect events or circumstances that may arise after the date of this release.

## **Non-GAAP Financial Measures**

This release contains the following non-GAAP financial measures: Non-GAAP gross profit, Non-GAAP gross profit margin, Non-GAAP operating expenses, Non-GAAP net loss, Non-GAAP loss per share (diluted), and free cash flow. See below for a reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure. These non-GAAP financial measures are an important measure of our operating performance because they allow management, investors and analysts to evaluate and assess our core operating results from period-to-period after removing non-cash and non-recurring activities that affect comparability. Our management uses these non-GAAP financial measures in evaluating its financial and operational decision making and as a means to evaluate period-to-period comparisons.

Digimarc believes that providing these non-GAAP financial measures, together with the reconciliation to GAAP, helps management and investors make comparisons between us and other companies. In making any comparisons to other companies, investors need to be aware that companies use different non-GAAP measures to evaluate their financial performance. Investors should pay close attention to the specific definition being used and to the reconciliation between such measures and the corresponding GAAP measures provided by each company under applicable SEC rules. These non-GAAP financial measures are not measurements of financial performance or liquidity under GAAP. In order to facilitate a clear understanding of its consolidated historical operating results, investors should examine Digimarc's non-GAAP financial measures in conjunction with its historical GAAP financial information, and investors should not consider non-GAAP financial measures in isolation or as substitutes for performance measures calculated in accordance with GAAP. Non-GAAP financial measures should be viewed as supplemental to, and should not be considered as alternatives to, GAAP financial measures. Non-GAAP financial measures may not be indicative of the historical operating results of the Company nor are they intended to be predictive of potential future results.

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2025</b>	<b>2024</b>
<b>Revenue:</b>		
Subscription	\$ 5,314	\$ 5,762
Service	4,054	4,176
Total revenue	9,368	9,938
<b>Cost of revenue:</b>		
Subscription (1)	744	747
Service (1)	1,407	1,839
Amortization expense on acquired intangible assets	1,132	1,140
Total cost of revenue	3,283	3,726
<b>Gross profit</b>		
Subscription (1)	4,570	5,015
Service (1)	2,647	2,337
Amortization expense on acquired intangible assets	(1,132)	(1,140)
Total gross profit	6,085	6,212
<b>Gross profit margin:</b>		
Subscription (1)	86%	87%
Service (1)	65%	56%
Total	65%	63%
<b>Operating expenses:</b>		
Sales and marketing	5,078	5,536
Research, development and engineering	7,634	6,741
General and administrative	5,181	4,520
Amortization expense on acquired intangible assets	271	272
Total operating expenses	18,164	17,069
Operating loss	(12,079)	(10,857)
Other income, net	369	528
Loss before income taxes	(11,710)	(10,329)
Provision for income taxes	(20)	(9)
Net loss	\$ (11,730)	\$ (10,338)
<b>Loss per share:</b>		
Loss per share — basic	\$ (0.55)	\$ (0.50)
Loss per share — diluted	\$ (0.55)	\$ (0.50)
Weighted average shares outstanding — basic	21,521	20,730
Weighted average shares outstanding — diluted	21,521	20,730

(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)

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2025</b>	<b>2024</b>
<b>GAAP gross profit</b>	\$ 6,085	\$ 6,212
Amortization of acquired intangible assets	1,132	1,140
Amortization and write-off of other intangible assets	134	138
Stock-based compensation	137	253
Non-GAAP gross profit	\$ 7,488	\$ 7,743
Non-GAAP gross profit margin	80%	78%
<b>GAAP operating expenses</b>	\$ 18,164	\$ 17,069
Depreciation and write-off of property and equipment	(146)	(193)
Amortization of acquired intangible assets	(271)	(272)
Amortization and write-off of other intangible assets	(59)	(133)
Amortization of lease right of use assets under operating leases	(98)	(87)
Stock-based compensation	(1,123)	(2,578)
Non-GAAP operating expenses	\$ 16,467	\$ 13,806
<b>GAAP net loss</b>	\$ (11,730)	\$ (10,338)
Total adjustments to gross profit	1,403	1,531
Total adjustments to operating expenses	1,697	3,263
Non-GAAP net loss	\$ (8,630)	\$ (5,544)
<b>GAAP loss per share (diluted)</b>	\$ (0.55)	\$ (0.50)
Non-GAAP net loss	\$ (8,630)	\$ (5,544)
Non-GAAP loss per share (diluted)	\$ (0.40)	\$ (0.27)
<b>Free cash flow</b>		
Cash flows from operating activities	\$ (5,486)	\$ (8,422)
Purchase of property and equipment	(55)	(106)
Capitalized patent costs	(88)	(106)
Free cash flow	\$ (5,629)	\$ (8,634)

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

	<u>March 31,</u> <u>2025</u>	<u>December 31,</u> <u>2024</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents (1)	\$ 8,902	\$ 12,365
Marketable securities (1)	12,665	16,365
Trade accounts receivable, net	6,471	6,412
Other current assets	2,883	4,189
Total current assets	<u>30,921</u>	<u>39,331</u>
Property and equipment, net	909	1,040
Intangibles, net	21,162	22,191
Goodwill	8,754	8,532
Lease right of use assets	3,561	3,659
Other assets	1,213	1,013
Total assets	<u>\$ 66,520</u>	<u>\$ 75,766</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 6,731	\$ 5,118
Deferred revenue	4,711	4,020
Total current liabilities	<u>11,442</u>	<u>9,138</u>
Long-term lease liabilities	5,003	5,213
Other long-term liabilities	58	56
Total liabilities	<u>16,503</u>	<u>14,407</u>
Shareholders' equity:		
Preferred stock	50	50
Common stock	22	21
Additional paid-in capital	414,768	415,049
Accumulated deficit	(362,508)	(350,778)
Accumulated other comprehensive loss	(2,315)	(2,983)
Total shareholders' equity	<u>50,017</u>	<u>61,359</u>
Total liabilities and shareholders' equity	<u>\$ 66,520</u>	<u>\$ 75,766</u>

(1) Aggregate cash, cash equivalents, and marketable securities was \$21.6 million and \$28.7 million at March 31, 2025 and December 31, 2024, respectively.

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

	Three Months Ended March 31,	
	2025	2024
<b>Cash flows from operating activities:</b>		
Net loss	\$ (11,730)	\$ (10,338)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and write-off of property and equipment	146	193
Amortization of acquired intangible assets	1,403	1,412
Amortization and write-off of other intangible assets	193	271
Amortization of lease right of use assets under operating leases	98	87
Stock-based compensation	1,260	2,831
Increase (decrease) in allowance for doubtful accounts	—	(17)
Changes in operating assets and liabilities:		
Trade accounts receivable	(149)	600
Other current assets	1,331	273
Other assets	(105)	(323)
Accounts payable and other accrued liabilities	1,549	(2,624)
Deferred revenue	689	(600)
Lease liability and other long-term liabilities	(171)	(187)
Net cash provided by (used in) operating activities	(5,486)	(8,422)
<b>Cash flows from investing activities:</b>		
Purchase of property and equipment	(55)	(106)
Capitalized patent costs	(88)	(106)
Proceeds from maturities of marketable securities	6,564	3,501
Purchases of marketable securities	(2,864)	(10,320)
Net cash provided by (used in) investing activities	3,557	(7,031)
<b>Cash flows from financing activities:</b>		
Issuance of common stock, net of issuance costs	—	32,218
Purchase of common stock	(1,545)	(1,781)
Repayment of loans	(15)	(15)
Net cash provided by (used in) financing activities	(1,560)	30,422
Effect of exchange rate on cash	26	(11)
Net increase (decrease) in cash and cash equivalents	\$ (3,463)	\$ 14,958
<b>Cash, cash equivalents and marketable securities at beginning of period</b>		
	28,730	27,182
<b>Cash, cash equivalents and marketable securities at end of period</b>		
	21,567	48,925
Net increase (decrease) in cash, cash equivalents and marketable securities	\$ (7,163)	\$ 21,743

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# **DIGIMARC**

## **Digimarc Corporation (DMRC) Conference Call First Quarter 2025 Financial Results**

**May 5, 2025**

### **Welcome [George Karamanos]**

Welcome to our Q1 conference call. Riley McCormack, our CEO, and Charles Beck, our CFO, are with me on the call. On the call today, we will provide a business update and discuss Q1 2025 financial results. This will be followed by a question and answer forum. We have posted our prepared remarks in the investor relations section of our website and will archive this webcast there.

### **Safe Harbor Statement**

Before we begin, let me remind everyone that today's discussion contains forward-looking statements that have risks and uncertainties. Please refer to our press release for more information on the specific risk factors that could cause actual results to differ materially.

Riley will now provide a business update.

### **Business Update [Riley McCormack]**

Thank you, George, and hello everyone.



As discussed on our last earnings call, we have narrowed our immediate focus to three specific opportunity sets: retail loss prevention, physical authentication, and digital authentication. In parallel, we have also ensured that we are positioned to benefit from our historical progress in other areas, either directly or through our valued partners.

This tightening of focus was made possible by our recent technological and market advancements in the authentication space. As a reminder, we discussed those advancements in greater detail on our last two calls. It is a testament to the power of our team and our technology that we have been able to grow annual recurring revenue (ARR) almost 5x over these last four years as we have been zeroing in on areas of deep product-market fit; most companies oscillate around flat until they reach that critical milestone.

We have accomplished this while applying the rigor and focus required to speed time to deep product-market fit. Since the middle of 2021, we have exited businesses and de-emphasized offerings and business practices that didn't make strategic sense while also moving away from pursuing non-scalable services revenue.

Adjusting for the end of life of our Piracy Intelligence business, we have more than tripled commercial subscription revenue since Q2 2021. We have also expanded our subscription gross margin almost 1000 basis points despite no longer licensing our IP to potential competitors; this decision was a headwind to both revenue and margins as IP licensing carries a 100% gross margin rate. It was also unquestionably the right thing to do to ensure our long-term success.

More exciting than where we have been, however, is where we are going. On that front, I want to take a moment to reiterate what we shared on our last call. While we continue to expect lumpiness as we shift our focus to our core authentication

use cases, we believe we are on the cusp of sustainable free cash flow generation for the first time in over twelve years. Moreover, beyond “just” achieving this important milestone, we expect to deliver significant top line growth and free cash flow generation in 2026 and beyond.

Turning now to an update on our business, our Q1 results came in above our internal plan. These results demonstrate that it is indeed possible to deliver in our much tighter focus areas while still positioning ourselves to potentially benefit from our historical work outside these specific areas.

Starting with our work in retail loss prevention, we expect the first gift cards protected with our solution will appear on shelves within the next month. This is a critical milestone in our work to catalyze the industry towards meaningful adoption this year. Moreover, while the market sizing that we have shared for our gift card solution only contemplates the US market, we are beginning to work with partners to map out the opportunity in multiple other large geographies. The driver behind narrowing our go-to-market focus is the incredible power that comes from such focus, especially when trying to orchestrate a roll-out as large -- and on as tight a timeline -- as we expect this gift card rollout will be.

As discussed in greater detail on our last call, the other retail loss prevention use case that we expect to contribute to 2025 ARR is our solution addressing price look-up, or PLU, fraud. On this front, our initial customer will be a featured guest on the May 29<sup>th</sup> episode of the influential Omni Talk podcast to talk about the power of our solution. This level of customer advocacy is both powerful and appreciated.

Turning now to our physical authentication solutions, we expect to shortly sign a fifth deal with the Digimarc Validate customer I referenced on our last call. Recall the first deal they signed was in Q3 2024. Our learnings from this engagement,

and how we can replicate it, are as valuable to us as the mid 6-figure revenue it represents.

We have also formed a partnership with a fellow supplier to one of our loyalty and reward customers. We both agree with this shared customer that our solutions pair well together. As a reminder, our loyalty and reward offering involves the application of serialized QR codes and Digimarc Illuminate analytics to modernize and secure loyalty and reward programs, not create the underlying programs themselves. This new partner has already introduced us to four of their more than one thousand customers. We look forward to strengthening this new partnership one happy customer at a time.

Touching now on our digital authentication solutions, as mentioned on our last call, we had chosen to be very conservative about this area's contribution to 2025 ARR. We made this decision to ensure we were focused on optimizing our work in this area for the long term. As it turns out, it is likely this area will exceed the conservative assumptions for this Fiscal Year. Not only do we expect to grow the relationship with the Fortune 100 customer we discussed on the last call, we are also beginning conversations with others interested in a similar solution to help fight unauthorized leaks and/or the improper usage of sensitive and valuable digital assets. Still, my message remains consistent -- we will make decisions optimized for the long term, not the short term, in this area and across our entire business.

Moving now to how we have positioned ourselves to benefit from other opportunities outside of our three current areas of focus. Last week, we were excited to share the news of being selected by Unilever to be their digital link vendor of choice. We also recently won a deal with another large CPG for this same use case. With the twin tailwinds of Digital Product Passport (DPP) and Sunrise 2027, carving out early wins in this space sets us up to help companies with their need for upcoming compliance, whether that be directly or through our

valued print/pack partners.

We were also excited to share the announcement from The Alliance to End Plastic Waste (AEPW) and AIM (the European Brands Association) that now is the time to scale commercial adoption of Digimarc Recycle. We agree, and our initial win in Belgium, as well as our support for other opportunities this group is progressing, positions us squarely under that tree as this much-needed future unfolds.

Finally, with regards to our work of identifying digital assets in the era of GenAI, we expect to be able to soon announce a win with an important division of the United States government. When it comes to providing the safer, fairer, and more transparent internet we all deserve, this win is an important beach head as this future unfolds. It should also act as an important point of validation as we focus on opening the digital authentication market that is currently a commercial focus.

I will now turn the call over to Charles to discuss our financial results.

## **Financial Results [Charles Beck]**

Thank you, Riley, and hello everyone.

Ending ARR<sup>1</sup> for Q1 was \$20.0 million compared to \$23.9 million for Q1 last year. Excluding the \$5.8 million commercial contract that lapsed last year, we grew ending ARR \$1.9 million, representing year-on-year growth of 11%. I want to remind everyone that on the last earnings call I mentioned the potential for an increase in customer churn and that we would be strategically price aggressive on a handful of renewals outside of our current focus areas. This occurred in Q1 and we expect it to continue into Q2 as we

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<sup>1</sup> Annual Recurring Revenue (ARR) is a company performance metric calculated as the aggregation of annualized subscription fees from all of our commercial contracts as of the measurement date.

tighten our go-to-market focus. As Riley referenced earlier, we are above our internal plan for ARR after the first quarter.

Total revenue was \$9.4 million, a decrease of \$600 thousand or 6% from \$9.9 million in Q1 last year.

Subscription revenue, which accounted for 57% of total revenue for the quarter, decreased 8% from \$5.8 million to \$5.3 million. The decrease reflects no revenue recognized on the expired commercial contract I just referenced versus \$1.1 million of revenue recognized in Q1 last year. Excluding the impact of the expired contract, subscription revenue would have increased \$600 thousand or 13%, reflecting revenue recognized on new contracts and upsells on existing contracts.

Service revenue decreased 3% from \$4.2 million to \$4.1 million, reflecting lower government service revenue from the Central Banks, partially offset by higher commercial service revenue from HolyGrail recycling projects. As I stated on the previous earnings call, we expect government service revenue in 2025 to be 12% to 14% lower than 2024 but also to be spread more evenly in 2025 than 2024. Actual results were in line with our budget as government service revenue was down 17%, reflecting both a lower annual program budget and a smoother distribution of services in 2025. Regarding the HolyGrail recycling projects, we have now substantially completed the services related to Phase 3. We do not anticipate any future services as the industry shifts its focus to commercial rollout.

Subscription gross profit margin<sup>2</sup> excluding amortization expense, was 86% for the quarter, down 1 percentage point from Q1 last year, reflecting the impact of lower subscription revenue. We anticipate that subscription gross profit margins may be lower the next couple of quarters as we continue to consolidate our legacy platforms, but after

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<sup>2</sup> Subscription gross profit margin excludes amortization expense on acquired intangible assets.

the migration, we expect subscription gross margins to recover and even increase over time as our Illuminate platform should be more efficient than our legacy platforms.

Service gross profit margin was 65% for the quarter, up 9 percentage points from Q1 last year, reflecting a favorable service labor mix that we do not expect to continue at this elevated level. As a reminder, we expect to generate mid-50 percent service gross profit margins on a normalized basis, with some fluctuation quarter to quarter.

Operating expenses were \$18.2 million for the quarter, up 6% from \$17.1 million in Q1 last year. The increase in operating expenses primarily reflects \$3.2 million of one-time cash severance costs incurred in Q1 related to the reorganization we announced in late February and \$900 thousand of higher professional services costs, partially offset by lower stock compensation expenses of \$1.5 million and lower headcount costs of \$1.4 million. Due to the timing of the reorganization, the headcount cost savings in Q1 were around \$1 million, but going forward we expect the savings to be over \$4 million a quarter.

Non-GAAP operating expenses, which exclude non-cash and non-recurring items, were \$16.5 million for the quarter, up 19% from \$13.8 million in Q1 last year. The increase in non-GAAP operating expenses primarily reflects \$3.2 million of one-time cash severance costs incurred in Q1 related to the reorganization and \$900 thousand of higher professional services costs, partially offset by lower headcount costs of \$1.4 million. As a reminder, we do not exclude cash severance costs in our non-GAAP results.

Net loss per share for the quarter was 55 cents versus 50 cents in Q1 last year. Non-GAAP net loss per share for the quarter was 40 cents versus 27 cents in Q1 last year. Excluding the one-time severance costs of \$3.2 million, net loss per share and non-GAAP net loss per share would have been 40 cents and 25 cents, respectively, both an improvement over Q1 last year.

Now turning to cash flow, we ended the quarter with \$21.6 million in cash and short-term investments. Free cash flow<sup>3</sup> usage was down considerably from \$8.6 million in Q1 last year to \$5.6 million in Q1 this year. Further, the \$5.6 million of free cash flow usage included \$2.1 million in one-time severance related costs paid during the first quarter. Excluding the one-time severance costs paid, free cash flow usage would have been \$3.5 million.

Looking ahead, we now expect to see higher cash flow usage in Q2 than we originally expected due to significantly higher legal and public relations costs as a result of an external matter that arose near the end of March. Currently these costs are running upwards of half a million dollars per month, before accounting for the risk they introduce to important on-going customer and partner conversations. Assuming a cessation of this external matter, after Q2 we expect normalized cash flow usage to continue to decrease, with the goal of becoming free cash flow positive by Q4 this year.

For further discussion of our financial results, and risks and prospects for our business, please see our Form 10-Q that will be filed with the SEC.

I will now turn the call back over to Riley for final remarks.

## **Final Remarks [Riley McCormack]**

Thank you, Charles.

We are excited to continue to execute against the strategy we laid out on the last call. Recent technological and market achievements have allowed us the opportunity to

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<sup>3</sup> Free cash flow includes cash used in operating activities, the purchase of property and equipment and capitalized patent costs.

tighten our focus to an even greater level, and we seized that opportunity, knowing that the combination of focus, this team, and this technology is a powerful force.

While early, Q1 results demonstrate that it is possible to deliver in our much tighter focus areas while positioning ourselves to potentially benefit from our historical work outside these specific areas. We remain excited about what lies ahead.

Operator, we will now open the call for questions.