

Digimarc CORP
Form 10-Q
April 28, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-34108

DIGIMARC CORPORATION
(Exact name of registrant as specified in its charter)

Oregon
(State or other jurisdiction of
incorporation or organization)
9405 SW Gemini Drive, Beaverton, Oregon 97008
(Address of principal executive offices) (Zip Code)
(503) 469-4800
(Registrant's telephone number, including area code)

26-2828185
(I.R.S. Employer
Identification No.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in rule 12b-2 of the Exchange Act). Yes No

As of April 22, 2016, there were 9,080,541 shares of the registrant's common stock, par value \$0.001 per share, outstanding.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****DIGIMARC CORPORATION****CONSOLIDATED BALANCE SHEETS****(In thousands, except per share data)****(UNAUDITED)**

	March 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 8,066	\$ 3,160
Marketable securities	25,784	33,027
Trade accounts receivable, net	2,296	4,616
Other current assets	1,396	1,487
Total current assets	37,542	42,290
Marketable securities	2,046	2,999
Property and equipment, net	2,987	3,010
Intangibles, net	6,563	6,613
Goodwill	1,114	1,114
Other assets	314	338
Total assets	\$ 50,566	\$ 56,364
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	\$ 775	\$ 1,657
Deferred revenue	2,609	3,023
Total current liabilities	3,384	4,680
Deferred rent and other long-term liabilities	219	226
Total liabilities	3,603	4,906
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock (par value \$0.001 per share, 2,500 authorized, 10 shares issued and outstanding at March 31, 2016 and December 31, 2015)	50	50
Common stock (par value \$0.001 per share, 50,000 authorized, 9,077 and 8,919 shares issued and outstanding at March 31, 2016 and December 31, 2015,	9	9

respectively)

Additional paid-in capital	78,379	77,439
Accumulated deficit	(31,475)	(26,040)
Total shareholders' equity	46,963	51,458
Total liabilities and shareholders' equity	\$ 50,566	\$ 56,364

The accompanying notes are an integral part of these consolidated financial statements.

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DIGIMARC CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(UNAUDITED)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Revenue:		
Service	\$ 3,250	\$ 3,501
Subscription	1,463	1,716
License	867	772
Total revenue	5,580	5,989
Cost of revenue:		
Service	1,432	1,578
Subscription	662	754
License	96	84
Total cost of revenue	2,190	2,416
Gross profit	3,390	3,573
Operating expenses:		
Sales and marketing	2,955	2,090
Research, development and engineering	3,305	3,084
General and administrative	2,170	2,206
Intellectual property	434	367
Total operating expenses	8,864	7,747
Operating loss	(5,474)	(4,174)
Other income, net	46	23
Loss before income taxes	(5,428)	(4,151)
(Provision) benefit for income taxes	(7)	1
Net loss	\$ (5,435)	\$ (4,150)
Earnings (loss) per common share:		
Loss per common share basic	\$ (0.64)	\$ (0.52)
Loss per common share diluted	\$ (0.64)	\$ (0.52)
Weighted average common shares outstanding basic	8,533	7,960

Weighted average common shares outstanding diluted	8,533	7,960
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The accompanying notes are an integral part of these consolidated financial statements.

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DIGIMARC CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY

(In thousands)

(UNAUDITED)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Shareholders Equity
	Shares	Amount	Shares	Amount			
BALANCE AT DECEMBER 31, 2014	10	\$ 50	8,427	\$ 8	\$ 60,222	\$ (8,106)	\$ 52,174
Exercise of stock options			45	1	873		874
Issuance of restricted common stock			90				
Forfeiture of restricted common stock			(5)				
Purchase and retirement of common stock			(17)		(496)		(496)
Stock-based compensation					1,254		1,254
Net loss						(4,150)	(4,150)
BALANCE AT MARCH 31, 2015	10	\$ 50	8,540	\$ 9	\$ 61,853	\$ (12,256)	\$ 49,656
BALANCE AT DECEMBER 31, 2015	10	\$ 50	8,919	\$ 9	\$ 77,439	\$ (26,040)	\$ 51,458
Exercise of stock options			15		145		145
Issuance of restricted common stock			162				
Forfeiture of restricted common stock			(1)				
Purchase and retirement of common stock			(18)		(520)		(520)
Stock-based compensation					1,315		1,315
Net loss						(5,435)	(5,435)
BALANCE AT MARCH 31, 2016	10	\$ 50	9,077	\$ 9	\$ 78,379	\$ (31,475)	\$ 46,963

The accompanying notes are an integral part of these consolidated financial statements.

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DIGIMARC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(UNAUDITED)

	Three Months Ended March 31, 2016	Three Months Ended March 31, 2015
Cash flows from operating activities:		
Net loss	\$ (5,435)	\$ (4,150)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and write-off of property and equipment	339	328
Amortization and write-off of intangibles	290	277
Changes in allowance for doubtful accounts		10
Stock-based compensation	1,283	1,217
Changes in operating assets and liabilities:		
Trade accounts receivable	2,320	915
Other current assets	91	93
Other assets	24	41
Accounts payable and other accrued liabilities	(663)	(99)
Deferred revenue	(457)	(668)
Net cash used in operating activities	(2,208)	(2,036)
Cash flows from investing activities:		
Purchase of property and equipment	(490)	(125)
Capitalized patent costs	(217)	(194)
Maturity of marketable securities	14,277	8,171
Purchase of marketable securities	(6,081)	(7,252)
Net cash provided by investing activities	7,489	600
Cash flows from financing activities:		
Exercise of stock options	145	874
Purchase of common stock	(520)	(496)
Net cash provided by (used in) financing activities	(375)	378
Net increase (decrease) in cash and cash equivalents	4,906	(1,058)
Cash and cash equivalents at beginning of period	3,160	6,122
Cash and cash equivalents at end of period	\$ 8,066	\$ 5,064

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Supplemental disclosure of cash flow information:

Cash paid for income taxes, net	\$	6	\$	2
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Supplemental schedule of non-cash investing activities:

Property and equipment and patent costs in accounts payable	\$	30	\$	140
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Stock-based compensation capitalized to software and patent costs	\$	32	\$	37
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The accompanying notes are an integral part of these consolidated financial statements.

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DIGIMARC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

(UNAUDITED)

1. Description of Business and Significant Accounting Policies

Description of Business

Digimarc Corporation (Digimarc or the Company), an Oregon corporation, enables governments and enterprises around the world to give digital identities to media and objects that computers can sense and recognize and to which they can react. The Company has developed the Digimarc Discover® and Digimarc Barcode Intuitive Computing Platform that are designed to optimize the identification of all consumer brand impressions, wherever and whenever they may appear, facilitating modern mobile-centric shopping. The platform includes means to embed Digimarc Barcodes, invisible and inaudible barcode-like information that is recognizable by smartphones, tablets, industrial scanners, and other computer interfaces into virtually all forms of media content, including consumer product packaging. Digimarc Barcodes have many applications, including facilitating remarkably faster scanning of products at retail checkout as well as improved engagement with smartphone-equipped consumers. The Digimarc Barcode is robust yet imperceptible by people in ordinary use, allowing for reliable, efficient, economical, globally scalable automatic identification of media without visible computer codes like traditional barcodes.

Interim Consolidated Financial Statements

The Company has adhered to the accounting policies set forth in its Annual Report on Form 10-K for the year ended December 31, 2015 in preparing the accompanying interim consolidated financial statements.

The accompanying interim consolidated financial statements have been prepared from the Company's records without audit and, in management's opinion, include all adjustments (consisting of only normal recurring adjustments) necessary to fairly reflect the financial condition and the results of operations for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) have been condensed or omitted in accordance with the rules and regulations of the Securities and Exchange Commission (SEC).

These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the SEC on February 25, 2016. The results of operations for the interim periods presented in these consolidated financial statements are not necessarily indicative of the results for the full year.

Reclassifications

Certain prior period amounts in the accompanying consolidated financial statements and notes thereto have been reclassified to conform to current period presentation. These reclassifications had no material effect on the results of operations or financial position for any period presented.

Accounting Pronouncements Adopted

In April 2015, the FASB issued ASU 2015-05, *Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU No. 2015-05 provides guidance about whether a cloud computing arrangement includes a software license. If a cloud computing arrangement includes a software license, the customer should account for the software license element of the arrangement consistent with the acquisition of other software licenses. If a