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 September 30, 2024

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

8500 SW Creekside Place, Beaverton, Oregon 97008
(Address of principal executive offices) (Zip Code)

(503) 469-4800
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol	Name of Each Exchange on Which Registered
Common Stock, $0.001 Par Value Per Share	**DMRC**	**The NASDAQ Stock Market LLC**

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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 November 8, 2024, there were 21,451,804 shares of the registrant's common stock, par value $0.001 per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

DIGIMARC CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)
(UNAUDITED)

	September 30, 2024	December 31, 2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 25,560	$ 21,456
Marketable securities	8,126	5,726
Trade accounts receivable, net	6,965	5,813
Other current assets	4,143	4,085
Total current assets	44,794	37,080
Property and equipment, net	1,159	1,570
Intangibles, net	24,834	28,458
Goodwill	9,030	8,641
Lease right of use assets	3,754	4,017
Other assets	1,453	786
Total assets	$ 85,024	$ 80,552
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 5,973	$ 6,672
Deferred revenue	3,409	5,853
Total current liabilities	9,382	12,525
Long-term lease liabilities	5,418	5,994
Other long-term liabilities	64	106
Total liabilities	14,864	18,625
Commitments and contingencies (Note 15)		
Shareholders' equity:		
Preferred stock (par value $0.001 per share, 2,500 authorized, 10 shares issued and outstanding at September 30, 2024 and December 31, 2023)	50	50
Common stock (par value $0.001 per share, 50,000 authorized, 21,444 and 20,379 shares issued and outstanding at September 30, 2024 and December 31, 2023, respectively)	21	20
Additional paid-in capital	413,480	376,189
Accumulated deficit	(342,130)	(311,768)
Accumulated other comprehensive loss	(1,261)	(2,564)
Total shareholders' equity	70,160	61,927
Total liabilities and shareholders' equity	$ 85,024	$ 80,552

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

DIGIMARC CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(In thousands, except per share data)
(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	**2023**	**2024**	**2023**
Revenue:				
Subscription	$ 5,252	$ 4,811	$ 17,394	$ 13,374
Service	4,191	4,183	12,366	12,193
Total revenue	9,443	8,994	29,760	25,567
Cost of revenue:				
Subscription (1)	735	698	2,205	2,264
Service (1)	1,638	1,938	5,138	5,621
Amortization expense on acquired intangible assets	1,173	1,135	3,445	3,346
Total cost of revenue	3,546	3,771	10,788	11,231
Gross profit	5,897	5,223	18,972	14,336
Operating expenses:				
Sales and marketing	5,637	5,366	16,789	16,770
Research, development and engineering	6,488	6,308	19,873	20,295
General and administrative	4,861	4,433	13,695	13,412
Amortization expense on acquired intangible assets	280	272	823	800
Impairment of lease right of use assets and leasehold improvements	—	—	—	250
Total operating expenses	17,266	16,379	51,180	51,527
Operating loss	(11,369)	(11,156)	(32,208)	(37,191)
Other income, net	617	478	1,868	1,870
Loss before income taxes	(10,752)	(10,678)	(30,340)	(35,321)
Provision for income taxes	(2)	(45)	(22)	(65)
Net loss	$ (10,754)	$ (10,723)	$ (30,362)	$ (35,386)
Loss per share:				
Loss per share — basic	$ (0.50)	$ (0.53)	$ (1.43)	$ (1.76)
Loss per share — diluted	$ (0.50)	$ (0.53)	$ (1.43)	$ (1.76)
Weighted average shares outstanding — basic	21,435	20,217	21,187	20,158
Weighted average shares outstanding — diluted	21,435	20,217	21,187	20,158
Comprehensive loss:				
Unrealized gain (loss) on marketable securities, net of tax of $ 0	$ 6	$ —	$ (11)	$ 144
Foreign currency translation adjustment, net of tax of $ 0	1,591	(983)	1,314	383
Other comprehensive income (loss)	$ 1,597	$ (983)	$ 1,303	$ 527
Net loss	(10,754)	(10,723)	(30,362)	(35,386)
Comprehensive loss	$ (9,157)	$ (11,706)	$ (29,059)	$ (34,859)

(1) Cost of revenue for Subscription and Service excludes Amortization expense on acquired intangible assets.

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

DIGIMARC CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)
(UNAUDITED)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Three Months Ended September 30, 2024								
Balance at June 30, 2024	10	$ 50	21,420	$ 21	$ 411,331	$ (331,376)	$ (2,858)	$ 77,168
Vesting of restricted stock units	—	—	52	—	—	—	—	—
Forfeiture of restricted common stock	—	—	(6)	—	—	—	—	—
Purchase of common stock	—	—	(22)	—	(558)	—	—	(558)
Stock-based compensation	—	—	—	—	2,707	—	—	2,707
Unrealized gain (loss) on marketable securities	—	—	—	—	—	—	6	6
Foreign currency translation adjustments	—	—	—	—	—	—	1,591	1,591
Net loss	—	—	—	—	—	(10,754)	—	(10,754)
Balance at September 30, 2024	10	$ 50	21,444	$ 21	$ 413,480	$ (342,130)	$ (1,261)	$ 70,160
Three Months Ended September 30, 2023								
Balance at June 30, 2023	10	$ 50	20,334	$ 20	$ 371,893	$ (290,472)	$ (2,853)	$ 78,638
Vesting of restricted stock units	—	—	44	—	—	—	—	—
Forfeiture of restricted common stock	—	—	(1)	—	—	—	—	—
Purchase of common stock	—	—	(21)	—	(756)	—	—	(756)
Stock-based compensation	—	—	—	—	2,707	—	—	2,707
Foreign currency translation adjustments	—	—	—	—	—	—	(983)	(983)
Net loss	—	—	—	—	—	(10,723)	—	(10,723)
Balance at September 30, 2023	10	$ 50	20,356	$ 20	$ 373,844	$ (301,195)	$ (3,836)	$ 68,883
Nine Months Ended September 30, 2024								
Balance at December 31, 2023	10	$ 50	20,379	$ 20	$ 376,189	$ (311,768)	$ (2,564)	$ 61,927
Issuance of common stock	—	—	929	1	32,217	—	—	32,218
Issuance of restricted common stock	—	—	24	—	—	—	—	—
Vesting of restricted stock units	—	—	148	—	—	—	—	—
Vesting of performance restricted stock units	—	—	60	—	—	—	—	—
Forfeiture of restricted common stock	—	—	(7)	—	—	—	—	—
Purchase of common stock	—	—	(89)	—	(2,890)	—	—	(2,890)
Stock-based compensation	—	—	—	—	7,964	—	—	7,964
Unrealized gain (loss) on marketable securities	—	—	—	—	—	—	(11)	(11)
Foreign currency translation adjustments	—	—	—	—	—	—	1,314	1,314
Net loss	—	—	—	—	—	(30,362)	—	(30,362)
Balance at September 30, 2024	10	$ 50	21,444	$ 21	$ 413,480	$ (342,130)	$ (1,261)	$ 70,160
Nine Months Ended September 30, 2023								
Balance at December 31, 2022	10	$ 50	20,260	$ 20	$ 367,692	$ (265,809)	$ (4,363)	$ 97,590
Issuance of common stock	—	—	10	—	—	—	—	—
Issuance of restricted common stock	—	—	45	—	—	—	—	—
Vesting of restricted stock units	—	—	117	—	—	—	—	—
Vesting of performance restricted stock units	—	—	2	—	—	—	—	—
Forfeiture of restricted common stock	—	—	(6)	—	—	—	—	—
Purchase of common stock	—	—	(72)	—	(2,036)	—	—	(2,036)
Stock-based compensation	—	—	—	—	8,188	—	—	8,188
Unrealized gain (loss) on marketable securities	—	—	—	—	—	—	144	144
Foreign currency translation adjustments	—	—	—	—	—	—	383	383
Net loss	—	—	—	—	—	(35,386)	—	(35,386)
Balance at September 30, 2023	10	$ 50	20,356	$ 20	$ 373,844	$ (301,195)	$ (3,836)	$ 68,883

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

DIGIMARC CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(UNAUDITED)

	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023
Cash flows from operating activities:		
Net loss	$ (30,362)	$ (35,386)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and write-off of property and equipment	570	911
Amortization of acquired intangible assets	4,268	4,146
Amortization and write-off of other intangible assets	651	709
Amortization of lease right of use assets under operating leases	263	426
Stock-based compensation	7,939	8,146
Impairment of lease right of use assets and leasehold improvements	—	250
Increase (decrease) in allowance for doubtful accounts	96	—
Changes in operating assets and liabilities:		
Trade accounts receivable	(1,321)	(1,581)
Other current assets	(9)	1,688
Other assets	(582)	279
Accounts payable and other accrued liabilities	(816)	299
Deferred revenue	(2,448)	3,298
Lease liability and other long-term liabilities	(586)	136
Net cash provided by (used in) operating activities	(22,337)	(16,679)
Cash flows from investing activities:		
Purchase of property and equipment	(199)	(208)
Capitalized patent costs	(313)	(295)
Proceeds from maturities of marketable securities	16,978	26,696
Purchases of marketable securities	(19,376)	(8,664)
Net cash provided by (used in) investing activities	(2,910)	17,529
Cash flows from financing activities:		
Issuance of common stock, net of issuance costs	32,218	—
Purchase of common stock	(2,890)	(2,036)
Repayment of loans	(35)	(33)
Net cash provided by (used in) financing activities	29,293	(2,069)
Effect of exchange rate on cash	58	(44)
Net increase (decrease) in cash and cash equivalents	4,104	(1,263)
Cash and cash equivalents at beginning of period	21,456	33,598
Cash and cash equivalents at end of period	$ 25,560	$ 32,335
Supplemental disclosure of cash flow information:		
Cash received (paid) for income taxes, net	$ (49)	$ (138)
Supplemental schedule of non-cash activities:		
Property and equipment and patent costs in accounts payable	$ 49	$ 14
Stock-based compensation capitalized to software and patent costs	$ 25	$ 42
Right of use assets obtained in exchange for lease obligations	$ —	$ 31

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

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, an Oregon corporation, is a pioneer and global leader in digital watermarking technologies. For nearly 30 years, Digimarc innovations and intellectual property in digital watermarking have been deployed in solutions built upon one or both of the following two things: the identification and the authentication of physical and digital items, often at massive scale, and often where other methods of identification or authentication don't work well or don't work at all.

The Digimarc Illuminate platform is a distinctive software as a service ("SaaS") cloud-based platform for digital connectivity that provides the tools for the application of advanced digital watermarks and dynamic Quick Response ("QR") codes, software (digital twins) that enables various systems and devices to interact with those data carriers, and a centralized platform for capturing insights about digital interactions and automating activities based on that information.

The Digimarc product suite is built on top of the Digimarc Illuminate platform to power a trusted and scalable ecosystem that can address specific business needs in areas like automation, authenticity, sustainability, and customer trust and connectivity. All of the Company's products are complementary to each other, providing exponential benefits when combined. By enabling customers to create and connect digital twins to physical and digital items, Digimarc's products provide many benefits including:

- **Digimarc Automate** improves product inspection by embedding imperceptible digital watermarks into products, labels, and packaging, which are detectable by standard vision systems. This significantly reduces mixing errors and mislabeling, ensuring higher accuracy and efficiency in production, fulfillment, and distribution facilities without additional costs for special inks or hardware. By enabling real-time data analysis and minimizing human error, Digimarc Automate enhances quality assurance, reduces waste, and lowers the risk of product recalls, giving brands a competitive edge.

- **Digimarc Engage** activates products and multimedia to create and leverage an interactive, fully owned communications channel directly with consumers. Digimarc delivers dynamic QR codes and hyperlinks that provide contextual redirection capabilities for multiple consumer experiences based on a variety of factors such as time and location or previous behavior. Connecting engagements across the physical and digital worlds in a singular view results in powerful new capabilities and insights for brands.

- **Digimarc Recycle** increases the quality and quantity of recycled materials by digitizing products and packaging with digital watermarking technology. Coupled with consumer engagement capabilities, brands can leverage a direct, digital communications channel. Plus, a cloud-based record of never-before-seen post-consumption data provides new insights that benefit stakeholders across the value chain, including brands, facility operators, and Producer Responsibility Organizations ("PROs").

- **Digimarc Retail Experience** delivers smarter, connected packaging that supports next-generation retail checkout systems, including checkout efficiency (faster scanning) and checkout effectiveness (reduced shrinkage), optimized operational processes, advanced consumer engagement experiences, compliance with upcoming industry standards, and the collection of powerful first-party data and consumer insights.

- **Digimarc Validate** supports authentication in the physical and digital worlds to help ensure online interactions can be trusted and that real products and digital assets are genuine and in the right place. Digimarc's technology protects digital images, audio, product packaging, gift cards, and other physical items by delivering exclusive, covert digital watermarks and/or dynamic QR codes and a cloud-based record of product authentication information. In addition, consumer engagement capabilities provide a direct, digital communications channel.

Interim Consolidated Financial Statements

Our significant accounting policies are detailed in "Note 1: Description of Business and Summary of Significant Accounting Policies" of our Annual Report on Form 10-K for the year ended December 31, 2023, which was filed with the U.S. Securities and Exchange Commission ("SEC") on February 29, 2024 (the "2023 Annual Report").

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 Generally Accepted Accounting Principles in the United States ("GAAP") have been condensed or omitted in accordance with the rules and regulations of the SEC.

These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the 2023 Annual Report. 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.

Principles of Consolidation

The consolidated financial statements include the accounts of Digimarc and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated.

DIGIMARC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In thousands, except per share data)
(UNAUDITED)

Accounting Pronouncements Issued But Not Yet Adopted

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-07 "Segment Reporting (Topic 280) – Improvements to Reportable Segment Disclosures". The ASU requires interim and annual disclosure of significant segment expenses that are regularly provided to the chief operating decision-maker ("CODM") and included within the reported measure of a segment's profit or loss, requires interim disclosures about a reportable segment's profit or loss and assets that are currently required annually, requires disclosure of the position and title of the CODM, clarifies circumstances in which an entity can disclose multiple segment measures of profit or loss, and contains other disclosure requirements. This authoritative guidance will be effective for the Company starting in the fiscal year ending December 31, 2024, for annual periods and in the first quarter of the fiscal year ending December 31, 2025, for interim periods, with early adoption permitted. The Company is currently evaluating the effect of this new standard on the Company's disclosures.

In December 2023, the FASB issued ASU No. 2023-09 "Income Taxes (Topic 740) - Improvements to Income Tax Disclosures". The ASU requires greater disaggregation of income tax disclosures primarily on the income tax rate reconciliation and income taxes paid. This authoritative guidance will be effective for the Company starting in the fiscal year ending December 31, 2025, with early adoption permitted. The Company is currently evaluating the effect of this new standard on the Company's disclosures.

In November 2024, the FASB issued ASU No. 2024-03 "Disaggregation of Income Statement Expenses". The ASU requires new tabular disclosure disaggregating prescribed expense categories within relevant income statement captions. This authoritative guidance will be effective for the Company starting in the fiscal year ending December 31, 2027, for annual periods, and in the first quarter of the fiscal year ending December 31, 2028, for interim periods, with early adoption permitted. The Company is currently evaluating the effect of this new standard on the Company's disclosures.

2. Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments, which include cash equivalents, accounts receivable, accounts payable and other accrued liabilities, approximate their carrying values due to the short-term nature of these instruments. The Company's marketable securities are classified as available-for-sale and are reported at fair value. Unrealized holding gains and losses are excluded from earnings and are reported net of tax in "accumulated other comprehensive loss" in the Consolidated Balance Sheets until realized. Realized gains and losses are included in "other income, net" in the Consolidated Statements of Operations and are derived using the specific identification method for determining the cost of marketable securities sold.

The Company's fair value hierarchy for its cash equivalents and marketable securities was as follows:

September 30, 2024	Level 1	Level 2	Level 3	Total
Money market securities	$ 2,853	$ —	$ —	$ 2,853
Commercial paper	—	14,227	—	14,227
Federal agency notes	—	13,454	—	13,454
U.S. treasuries	—	2,489	—	2,489
Total	$ 2,853	$ 30,170	$ —	$ 33,023

December 31, 2023	Level 1	Level 2	Level 3	Total
Money market securities	$ 1,515	$ —	$ —	$ 1,515
Commercial paper	—	14,622	—	14,622
U.S. treasuries	—	5,953	—	5,953
Federal agency notes	—	998	—	998
Total	$ 1,515	$ 21,573	$ —	$ 23,088

The fair value maturities of the Company's cash equivalents and marketable securities as of September 30, 2024, were as follows:

	Maturities by Period				
	Total	Less than 1 year	1-5 years	5-10 years	More than 10 years
Cash equivalents and marketable securities	$ 33,023	$ 33,023	$ —	$ —	$ —

The Company considers all highly liquid marketable securities with original maturities of 90 days or less at the date of acquisition to be cash equivalents. Cash equivalents include commercial paper, federal agency notes, U.S. treasuries, and money market securities totaling $24,897 and $17,362 at September 30, 2024 and December 31, 2023, respectively. Cash equivalents are carried at either cost or fair value, depending on the type of security.

3. Revenue Recognition

The Company derives its revenue primarily from software subscriptions and software development services. Applicable revenue recognition criteria are considered separately for each performance obligation as follows:

- Subscription revenue consists primarily of revenue earned from subscription fees for access to the Company's SaaS platform and products and, to a lesser extent, licensing fees for software products. The majority of subscription contracts are recurring, paid in advance and recognized over the term of the subscription, which is typically one to three years.

- Service revenue consists primarily of revenue earned from the performance of software development services and, to a lesser extent, professional services. The majority of software development contracts are structured as time and materials agreements. Revenue for services is generally recognized as the services are performed. Billing for services rendered generally occurs within one month after the services are provided.

DIGIMARC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In thousands, except per share data)
(UNAUDITED)

Customer arrangements may contain multiple performance obligations such as software subscriptions, software products, and professional services. The Company accounts for individual products and services separately if they are distinct. To determine the transaction price, the Company considers the terms of the contract and the Company's customary business practices. Some contracts may contain variable consideration. In those cases, the Company estimates the amount of variable consideration based on the sum of probability-weighted amounts in a range of possible consideration amounts. As part of this assessment, the Company will evaluate whether any of the variable consideration is constrained and if it is the Company will not include it in the transaction price. The consideration is allocated between distinct products and services based on their stand-alone selling prices. For items that are not sold separately, the Company estimates the standalone selling price based on reasonably available information, including market conditions, specific factors affecting the Company, and information about the customer. For distinct products and services, the Company typically recognizes the revenue associated with these performance obligations as they are delivered to the customer. Products and services that are not capable of being distinct are combined with other products or services until a distinct performance obligation is identified.

All revenue recognized in the Consolidated Statements of Operations is considered to be revenue from contracts with customers.

The following table provides information about disaggregated revenue by major target market in the Company's single reporting segment:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Commercial:				
Subscription	$ 4,952	$ 4,511	$ 16,494	$ 12,474
Service	430	213	864	849
Total Commercial	$ 5,382	$ 4,724	$ 17,358	$ 13,323
Government:				
Subscription	$ 300	$ 300	$ 900	$ 900
Service	3,761	3,970	11,502	11,344
Total Government	4,061	4,270	12,402	12,244
Total	$ 9,443	$ 8,994	$ 29,760	$ 25,567

The Company has contract assets from contracts with customers that are classified as "trade accounts receivable" in the Consolidated Balance Sheets. See Note 8 for more information about trade accounts receivable.

The Company has contract assets from capitalized contract acquisition costs that are classified as "other current assets" and "other assets" in the Consolidated Balance Sheets. These contract acquisition costs are recognized in proportion to the revenue recognized from the contract they are associated with.

The following table provides information about contract assets:

	September 30, 2024	December 31, 2023
Contract acquisition costs, current	$ 86	$ 113
Contract acquisition costs, long-term	4	9
Total	$ 90	$ 122

The Company has contract liabilities from contracts with customers that are classified as "deferred revenue" in the Consolidated Balance Sheets. Deferred revenue consists of billings in advance for subscriptions and services for which the performance obligation has not been satisfied.

The following table provides information about contract liabilities:

	September 30, 2024	December 31, 2023
Deferred revenue, current	$ 3,409	$ 5,853
Deferred revenue, long-term	3	7
Total	$ 3,412	$ 5,860

The Company recognized $5,533 of revenue during the nine months ended September 30, 2024, that was included in the contract liability balance as of December 31, 2023.

The aggregate amount of the transaction prices from contractual obligations that are unsatisfied or partially unsatisfied was $25,261 and $31,798 as of September 30, 2024, and December 31, 2023, respectively.

(In thousands, except per share data)

4. Segment Information

Geographic Information

The Company derives its revenue from a single reporting segment: product digitization solutions. Revenue is generated in this segment primarily through software subscriptions and software development services. The Company markets its products in the U.S. and in non-U.S. countries through its sales personnel and partners.

Revenue by geographic area, based upon the “bill-to” location, was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Domestic	$ 2,004	$ 2,921	$ 8,349	$ 8,541
International (1)	7,439	6,073	21,411	17,026
Total	$ 9,443	$ 8,994	$ 29,760	$ 25,567

(1) Revenue from the Central Banks, consisting of a consortium of central banks around the world, is classified as International revenue. Reporting revenue by country for this customer is not practicable.

Major Customers

The following customers accounted for 10% or more of revenue:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Customer A	43%	47%	41%	48%
Customer B	16%	*	15%	*
Customer C	*	21%	15%	21%

* Less than 10%

Long-Lived Assets by Geographical Area

Long-lived assets by geographic area were as follows:

	September 30, 2024	December 31, 2023
United States	$ 1,139	$ 1,535
Europe	20	35
Total	$ 1,159	$ 1,570

5. Stock-Based Compensation

Stock-based compensation includes expense charges for all stock-based awards to employees and directors. These awards include restricted stock awards, restricted stock units, and performance restricted stock units.

Stock-based compensation expense related to internal labor is capitalized to software and patent costs based on direct labor hours charged to capitalized software and patent costs.

Determining Fair Value

Restricted Stock Awards

The fair value of restricted stock awards (“RSA”) that vest upon meeting a service condition is based on the fair market value of the Company’s common stock on the date of the grant (measurement date) and is recognized on a straight-line basis over the service period of the award, which is generally three to four years for employee grants and one to three years for director grants.

(In thousands, except per share data)

Restricted Stock Units

The fair value of restricted stock unit ("RSU") awards that vest upon meeting a service condition is based on the fair market value of the Company's common stock on the date of the grant (measurement date) and is recognized on a straight-line basis over the service period of the award, which is generally three to four years for employee grants.

Performance Restricted Stock Units

The fair value of performance restricted stock unit ("PRSU") awards that vest upon meeting a service condition and a performance condition, such as the Company exceeding a future annual recurring revenue target, is determined based on the fair market value of the Company's common stock on the date of the grant, adjusted for probability of achievement of the performance criteria as of each reporting date (measurement date), and is recognized on a straight-line basis over the service period of the award, which is generally three years for employee grants. The probability of achievement is subject to judgment, and could change from period to period, impacting the amount of expense to be recognized.

The fair value of performance restricted stock units awards that vest upon meeting a service condition and a market condition, such as the Company exceeding shareholder returns as compared to an index of peer companies, is determined on the date of grant (measurement date) using the Monte Carlo valuation model. The Company recognizes the fair value of the award on a straight-line basis over the service period of the award, which is generally three years for employee grants.

The following inputs are used in the Monte Carlo valuation model to estimate the fair value:

Stock Price. The stock price represents the fair market value of the Company's common stock on the date of the grant.

Expected Volatility. The Company estimates the volatility of its common stock at the date of grant based on the historical volatility of its common stock based on historical prices over the most recent period commensurate with the term of the award.

Risk-Free Interest Rate. The Company determines the risk-free interest rate using current U.S. treasury yields for bonds with a maturity commensurate with the term of the award.

Monte Carlo valuation inputs:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Stock price	$ —	$ —	$ 36.64	$ 22.37
Expected volatility	—	—	66.3%	74.7%
Risk-free interest rate	—	—	4.3%	4.3%

Stock-Based Compensation

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Stock-based compensation:				
Cost of revenue	$ 154	$ 310	$ 563	$ 866
Sales and marketing	688	606	2,198	1,930
Research, development and engineering	648	658	1,911	2,269
General and administrative	1,212	1,118	3,267	3,081
Stock-based compensation expense	2,702	2,692	7,939	8,146
Capitalized to software and patent costs	5	15	25	42
Total stock-based compensation	$ 2,707	$ 2,707	$ 7,964	$ 8,188

The following table sets forth total unrecognized compensation costs related to non-vested stock-based awards granted under the Company's stock incentive plan:

	September 30, 2024	December 31, 2023
Total unrecognized compensation costs	$ 16,026	$ 15,370

Total unrecognized compensation costs will be adjusted for any future forfeitures if and when they occur.

DIGIMARC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In thousands, except per share data)
(UNAUDITED)

The Company expects to recognize the total unrecognized compensation costs as of September 30, 2024, for all non-vested stock-based awards over weighted average periods through September 30, 2028, as follows:

	RSAs	RSUs	PRSUs
Weighted average period (in years)	0.84	1.39	1.57

As of September 30, 2024, under the Company's stock incentive plan, an additional 1,282 shares remained available for future grants. The Company issues new shares upon the grant of RSAs and vesting of RSU and PRSU awards.

Restricted Stock Awards Activity

The following table presents the unvested RSA activity:

Three Months Ended September 30, 2024:	Number of Shares	Weighted Average Grant Date Fair Value
Unvested balance at June 30, 2024	62	$ 32.55
Granted	—	$ —
Vested	(11)	$ 31.14
Forfeited	(6)	$ 27.56
Unvested balance at September 30, 2024	45	$ 37.31

Nine Months Ended September 30, 2024:	Number of Shares	Weighted Average Grant Date Fair Value
Unvested balance at December 31, 2023	105	$ 29.89
Granted	24	$ 30.19
Vested	(77)	$ 28.05
Forfeited	(7)	$ 27.57
Unvested balance at September 30, 2024	45	$ 37.31

The fair value of RSAs vested is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Fair value of RSAs vested	$ 308	$ 613	$ 2,069	$ 2,071

Restricted Stock Units Activity

The following table presents the unvested RSU award activity:

Three Months Ended September 30, 2024:	Number of Shares	Weighted Average Grant Date Fair Value
Unvested balance at June 30, 2024	507	$ 28.05
Granted	10	$ 26.55
Vested	(52)	$ 27.40
Forfeited	(24)	$ 26.90
Unvested balance at September 30, 2024	441	$ 28.16

DIGIMARC CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
(In thousands, except per share data)
(UNAUDITED)

Nine Months Ended September 30, 2024:	**Number of Shares**		**Weighted Average Grant Date Fair Value**
Unvested balance at December 31, 2023	442	$	23.77
Granted	206	$	36.17
Vested	(148)	$	26.66
Forfeited	(59)	$	26.91
Unvested balance at September 30, 2024	441	$	28.16

The fair value of RSU awards vested is as follows:

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
	2024		**2023**		**2024**		**2023**	
Fair value of RSU awards vested	$	1,356	$	1,486	$	4,403	$	3,313

Performance Restricted Stock Units Activity

The following table presents the unvested PRSU award activity:

Three Months Ended September 30, 2024:	**Number of Shares**		**Weighted Average Grant Date Fair Value**
Unvested balance at June 30, 2024	220	$	32.09
Granted	—	$	—
Vested	—	$	—
Forfeited	(5)	$	32.40
Unvested balance at September 30, 2024	215	$	32.08

Nine Months Ended September 30, 2024:	**Number of Shares**		**Weighted Average Grant Date Fair Value**
Unvested balance at December 31, 2023	192	$	29.01
Change in units based on performance expectations	30	$	22.37
Granted	73	$	36.77
Vested	(60)	$	22.37
Forfeited	(20)	$	34.17
Unvested balance at September 30, 2024	215	$	32.08

The fair value of PRSU awards vested is as follows:

	Three Months Ended September 30,				**Nine Months Ended September 30,**			
	2024		**2023**		**2024**		**2023**	
Fair value of PRSU awards vested	$	—	$	—	$	2,370	$	54

6. Shareholders' Equity

Registered Direct Offering

On February 24, 2024, the Company entered into purchase agreements with certain investors providing for the issuance and sale by the Company of 929 shares of common stock in a registered direct stock offering. The common shares were offered at a price of $ 35.00 per share, and the gross cash proceeds to the Company were $32,500. We incurred $282 of legal costs related to the offering. The closing of the registered direct offering occurred on February 27, 2024.

(In thousands, except per share data)

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7. Earnings Per Share

The Company calculates basic and diluted earnings per share in accordance with Accounting Standards Codification ("ASC") No. 260, "*Earnings Per Share*," using the treasury stock method.

Basic earnings per common share excludes dilution and is calculated by dividing earnings by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing earnings by the weighted-average number of common shares, as adjusted for the potentially dilutive effect of unvested RSUs and PRSUs. RSAs are included in shares outstanding on the date of grant.

The following table reconciles earnings (loss) per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Basic Earnings (Loss) per Share:				
Net loss — basic	$ (10,754)	$ (10,723)	$ (30,362)	$ (35,386)
Weighted average shares outstanding — basic	21,435	20,217	21,187	20,158
Basic loss per share	$ (0.50)	$ (0.53)	$ (1.43)	$ (1.76)
Diluted Earnings (Loss) per Share:				
Net loss — diluted	$ (10,754)	$ (10,723)	$ (30,362)	$ (35,386)
Weighted average shares outstanding — diluted	21,435	20,217	21,187	20,158
Diluted loss per share	$ (0.50)	$ (0.53)	$ (1.43)	$ (1.76)

The following table indicates the stock equivalents related to unvested RSUs and PRSUs that were anti-dilutive and excluded from diluted earnings (loss) per share calculations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Anti-dilutive shares due to:				
Exercise prices higher than the average market price	—	—	—	—
Net loss	95	237	85	110

8. Trade Accounts Receivable

Trade Accounts Receivable

Trade accounts receivables are recorded at the contractual or invoiced amount.

	September 30, 2024	December 31, 2023
Trade accounts receivable, current	$ 7,195	$ 5,947
Trade accounts receivable, long-term	82	9
Allowance for doubtful accounts	(230)	(134)
Trade accounts receivable, net	$ 7,047	$ 5,822
Unpaid deferred revenue included in trade accounts receivable	$ 1,149	$ 2,073

Allowance for Doubtful Accounts

The Company's accounts receivables are subject to concentrations of credit risk. The Company maintains an allowance for its doubtful accounts receivable to reflect any estimated credit losses. The allowance is established in accordance with the current expected credit loss model, which requires the estimation of expected credit losses over the contractual life of financial assets. The allowance is calculated using a forward-looking probability-weighted approach based on historical loss experience, current economic conditions, and reasonable and supportable forecasts. The Company records the allowance in "general and administrative" expense in the Consolidated Statements of Operations, up to the amount of revenue recognized to date for each account. Any incremental allowance is recorded as an offset to "deferred revenue" in the Consolidated Balance Sheets. Account receivables are written off and charged against the recorded allowance when the Company has exhausted collection efforts without success.

Unpaid Deferred Revenue

The unpaid deferred revenue that is included in trade accounts receivable is billed in accordance with the provisions of the contracts with the Company's customers.

(In thousands, except per share data)

Major Customers

The following customers accounted for 10% or more of trade accounts receivable, net:

	September 30, 2024	December 31, 2023
Company A	35%	56%
Company B	11%	*
Company C	*	13%

* Less than 10%

9. Property and Equipment

Property and equipment are stated at cost. Repairs and maintenance are charged to expense when incurred.

Depreciation on property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, generally two to ten years. Leasehold improvements are amortized using the straight-line method over the shorter of the estimated useful life or the lease term.

	September 30, 2024	December 31, 2023
Office furniture and fixtures	$ 63	$ 1,435
Software	5,476	5,497
Equipment	2,532	2,472
Leasehold improvements	203	1,861
Gross property and equipment	8,274	11,265
Less accumulated depreciation	(7,115)	(9,695)
Property and equipment, net	$ 1,159	$ 1,570

10. Goodwill

The Company performs its annual goodwill impairment test during the second quarter of each fiscal year or whenever events or changes in circumstances indicate that the carrying value may exceed the fair value. If the carrying value exceeds the estimated fair value, an impairment is recorded. The Company operates as a single reporting unit. The Company estimates the fair value of its single reporting unit using a market approach, which takes into account the Company's market capitalization plus an estimated control premium. No impairment charges were recorded for the nine months ended September 30, 2024 and 2023.

Balance at December 31, 2023	$ 8,641
Currency translation adjustments	389
Balance at September 30, 2024	$ 9,030

11. Intangibles

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No impairment charges were recorded for the nine months ended September 30, 2024 and 2023.

Patent costs associated with the application and award of patents in the U.S. and various other countries are capitalized and amortized on a straight-line basis over the term of the patents as determined at the award date, which varies depending on the pendency period of the application, but generally approximates seventeen years.

(In thousands, except per share data)

Amortization of intangible assets acquired is calculated using the straight-line method over the estimated useful lives of the assets.

	Estimated Life (years)	September 30, 2024	December 31, 2023
Capitalized patent costs	~17	$ 9,117	$ 9,231
Intangible assets acquired:			
Purchased intellectual property	10	250	250
Developed technology	5	24,016	22,836
Customer relationships	10	11,476	10,913
Gross intangible assets		44,859	43,230
Accumulated amortization		(20,025)	(14,772)
Intangibles, net		$ 24,834	$ 28,458

The amortization of capitalized patent costs, purchased intellectual property, and developed technology is recorded in "cost of revenue" and the amortization of customer relationships is recorded in "operating expenses" in the Consolidated Statements of Operations.

Amortization expense on intangible assets was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Amortization expense	$ 1,589	$ 1,550	$ 4,678	$ 4,579

For intangible assets recorded at September 30, 2024, the estimated future aggregate amortization expense for the years ending December 31, 2024 through December 31, 2028 is as follows:

As of September 30, 2024	Amortization Expense
Remaining in 2024	$ 1,621
2025	6,478
2026	6,445
2027	1,610
2028	1,600

12. Leases

The Company accounts for leases in accordance with ASC 842, "*Leases.*"

The Company entered into a sublease agreement and lease extension agreement for office space in Beaverton, Oregon in February 2022 to move the Company's corporate headquarters. The term of the sublease and lease extension runs through September 2030, with remaining rent payments as of September 30, 2024, totaling $8,116 plus operating expenses, payable in monthly installments. The first 26 months of rent payments and operating expenses were abated to cover the remaining lease term on the Company's former corporate headquarters.

The lease term of the Company's former corporate headquarters in Beaverton, Oregon ended in March 2024, with no remaining rent payments as of September 30, 2024. The Company stopped using this office space as its corporate headquarters in March 2022.

All of the Company's leases are operating leases. The following table provides additional details of leases presented in the Consolidated Balance Sheets:

	September 30, 2024	December 31, 2023
Lease right of use assets	$ 3,754	$ 4,017
Lease liabilities, current	$ 753	$ 582
Lease liabilities, long-term	$ 5,418	$ 5,994
Weighted-average remaining life (in years)	6.0	6.5
Weighted-average discount rate	9%	9%

The current lease liabilities are included in "accounts payable and other accrued liabilities" in the Consolidated Balance Sheets.

The carrying value of the lease right of use assets is evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. No impairment was recorded for the nine months ended September 30, 2024. An "impairment of lease right of use assets and leasehold improvements" of $250 was recorded in the Consolidated Statements of Operations for the nine months ended September 30, 2023. The impairment charge was determined by comparing the carrying value of the assets to the net present value of estimated cash flows from the future sublease of the office space over the remaining lease term.

(In thousands, except per share data)

Operating lease expense is included in "operating expenses" in the Consolidated Statements of Operations and in "cash flows from operating activities" in the Consolidated Statements of Cash Flows. The operating leases include variable lease payments, which are included in operating lease expense. Additional details of the Company's operating leases are presented in the following table:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Operating lease expense	$ 363	$ 347	$ 1,110	$ 1,189
Cash paid for operating leases	$ 445	$ 260	$ 1,209	$ 909

The table below reconciles the aggregate cash payment obligations for the next five years and total of the remaining years for the operating lease liability recorded in the Consolidated Balance Sheets as of September 30, 2024:

As of September 30, 2024	Cash Payment Obligations
Remaining in 2024	$ 323
2025	1,317
2026	1,356
2027	1,397
2028	1,296
Thereafter	2,455
Total lease payments	8,144
Imputed interest	(1,973)
Total minimum lease payments	$ 6,171

13. Other Income

The following table provides activity in other income, net:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Interest income	$ 486	$ 423	$ 1,471	$ 1,283
Refundable tax credit	152	120	402	526
Foreign currency gains (losses)	(21)	(65)	(5)	58
Other income (loss)	—	—	—	3
Total other income, net	$ 617	$ 478	$ 1,868	$ 1,870

14. Income Taxes

The provision for income taxes reflects current taxes and deferred taxes. The effective tax rate for each of the nine months ended September 30, 2024 and 2023 was 0%.

The valuation allowance against net deferred tax assets as of September 30, 2024, was $104,131, an increase of $8,875 from $95,256 as of December 31, 2023. The Company continues to provide for a valuation allowance to offset its net deferred tax assets until such time it is more likely than not the tax assets or portions thereof will be realized.

An excess tax deficiency of $102 and an excess tax benefit of $1,410 were recognized in the provision for income taxes for the three and nine months ended September 30, 2024, respectively, which were offset by $102 and $1,410 of valuation allowance, respectively.

An excess tax benefit of $436 and an excess tax deficiency of $803 were recognized in the provision for income taxes for the three and nine months ended September 30, 2023, respectively, which were offset by $436 and $803 of valuation allowance, respectively.

15. Commitments and Contingencies

Certain of the Company's product and services agreements include an indemnification provision for claims from third parties relating to the Company's intellectual property. Such indemnification provisions are accounted for in accordance with ASC 450 "Contingencies." To date, there have been no claims made under such indemnification provisions.

The Company is subject from time to time to other legal proceedings and claims arising in the ordinary course of business. At this time, the Company does not believe that the resolution of any such matters will have a material adverse effect on its financial position, results of operations or cash flows.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements relating to future events or the future financial performance of Digimarc that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements. See the discussion regarding forward-looking statements included in this Quarterly Report on Form 10-Q under the caption "Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995."

The following discussion should be read in conjunction with our consolidated financial statements and the related notes and other financial information appearing elsewhere in this Quarterly Report on Form 10-Q. Readers are also urged to carefully review and consider the disclosures made in Part II, Item 1A ("Risk Factors") of this Quarterly Report on Form 10-Q and in the audited consolidated financial statements and related notes included in our 2023 Annual Report, and other reports and filings we have made with the SEC.

Unless the context otherwise requires, references in this Quarterly Report on Form 10-Q to "Company," "Digimarc," "we," "our," and "us" refer to Digimarc Corporation.

All dollar amounts within the tables below are in thousands. The percentages within the tables may not sum to 100% due to rounding.

Digimarc, Digimarc Barcode, The Barcode of Everything, Barcode of Everything, and the circle-d logo are registered trademarks of Digimarc Corporation. EVRYTHNG and EVRYTHNG PRODUCT CLOUD are registered trademarks of EVRYTHNG Limited ("EVRYTHNG"), a wholly owned subsidiary of Digimarc.

Overview

Digimarc, an Oregon corporation, is a pioneer and global leader in digital watermarking technologies. For nearly 30 years, Digimarc innovations and intellectual property in digital watermarking have been deployed in solutions built upon one or both of the following two things: the identification and the authentication of physical and digital items, often at massive scale, and often where other methods of identification or authentication don't work well or don't work at all.

The Digimarc Illuminate platform is a distinctive SaaS cloud-based platform for digital connectivity that provides the tools for the application of advanced digital watermarks and dynamic QR codes, software (digital twins) that enables various systems and devices to interact with those data carriers, and a centralized platform for capturing insights about digital interactions and automating activities based on that information.

The Digimarc product suite is built on top of the Digimarc Illuminate platform to power a trusted and scalable ecosystem that can address specific business needs in areas like automation, authenticity, sustainability, and customer trust and connectivity. All of the Company's products are complementary to each other, providing exponential benefits when combined. By enabling customers to create and connect digital twins to physical and digital items, Digimarc's products provide many benefits including:

- **Digimarc Automate** improves product inspection by embedding imperceptible digital watermarks into products, labels, and packaging, which are detectable by standard vision systems. This significantly reduces mixing errors and mislabeling, ensuring higher accuracy and efficiency in production, fulfillment, and distribution facilities without additional costs for special inks or hardware. By enabling real-time data analysis and minimizing human error, Digimarc Automate enhances quality assurance, reduces waste, and lowers the risk of product recalls, giving brands a competitive edge.

- **Digimarc Engage** activates products and multimedia to create and leverage an interactive, fully owned communications channel directly with consumers. Digimarc delivers dynamic QR codes and hyperlinks that provide contextual redirection capabilities for multiple consumer experiences based on a variety of factors such as time and location or previous behavior. Connecting engagements across the physical and digital worlds in a singular view results in powerful new capabilities and insights for brands.

- **Digimarc Recycle** increases the quality and quantity of recycled materials by digitizing products and packaging with digital watermarking technology. Coupled with consumer engagement capabilities, brands can leverage a direct, digital communications channel. Plus, a cloud-based record of never-before-seen post-consumption data provides new insights that benefit stakeholders across the value chain, including brands, facility operators, and Producer Responsibility Organizations ("PROs").

- **Digimarc Retail Experience** delivers smarter, connected packaging that supports next-generation retail checkout systems, including checkout efficiency (faster scanning) and checkout effectiveness (reduced shrinkage), optimized operational processes, advanced consumer engagement experiences, compliance with upcoming industry standards, and the collection of powerful first-party data and consumer insights.

- **Digimarc Validate** supports authentication in the physical and digital worlds to help ensure online interactions can be trusted and that real products and digital assets are genuine and in the right place. Digimarc's technology protects digital images, audio, product packaging, gift cards, and other physical items by delivering exclusive, covert digital watermarks and/or dynamic QR codes and a cloud-based record of product authentication information. In addition, consumer engagement capabilities provide a direct, digital communications channel.

Digimarc has maintained a relationship with a consortium of central banks for nearly 30 years, providing trusted technology to help deter digital counterfeiting of currency. The relationship was the first commercially successful large-scale use of our technologies and protects billions of banknotes in circulation globally.

Our intellectual property contains many innovations in digital watermarking, content and object recognition, product authentication, and related fields. To protect our inventions, we have implemented an extensive intellectual property protection program that relies on a combination of patent, copyright, trademark and trade secret laws, and nondisclosure agreements and other contracts. As a result, we believe we have one of the world's most extensive patent portfolios in digital watermarking and related fields, with approximately 820 U.S. and foreign patents granted and applications pending as of September 30, 2024. The patents in our portfolio each have a life of approximately 20 years from the patent's effective filing date.

Critical Accounting Policies and Estimates

Detailed information about our critical accounting policies and estimates is set forth in Part III, Item 15 of our 2023 Annual Report ("Exhibits and Financial Statement Schedules"), in "Note 1: Description of Business and Summary of Significant Accounting Policies," which is incorporated by reference into this Quarterly Report on Form 10-Q.

Results of Operations

The following table presents Consolidated Statements of Operations data for the periods indicated as a percentage of total revenue. Unless stated otherwise, all references in this Management's Discussion and Analysis of Financial Condition and Results of Operations relate to the three and nine month periods ended September 30, 2024, and all changes discussed with respect to such periods reflect changes compared to the three and nine month periods ended September 30, 2023.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Percentages are percent of total revenue				
Revenue:				
Subscription	56%	53%	58%	52%
Service	44%	47%	42%	48%
Total revenue	100%	100%	100%	100%
Cost of revenue:				
Subscription (1)	8%	8%	7%	9%
Service (1)	17%	22%	17%	22%
Amortization expense on acquired intangible assets	12%	13%	12%	13%
Total cost of revenue	38%	42%	36%	44%
Gross profit	62%	58%	64%	56%
Operating expenses:				
Sales and marketing	60%	60%	56%	66%
Research, development and engineering	69%	70%	67%	79%
General and administrative	51%	49%	46%	52%
Amortization expense on acquired intangible assets	3%	3%	3%	3%
Impairment of lease right of use assets and leasehold improvements	—	—	—	1%
Total operating expenses	183%	182%	172%	202%
Operating loss	(120)%	(124)%	(108)%	(145)%
Other income, net	7%	5%	6%	7%
Loss before income taxes	(114)%	(119)%	(102)%	(138)%
Provision for income taxes	(—)%	(1)%	(—)%	(—)%
Net loss	(114)%	(119)%	(102)%	(138)%

(1) Cost of revenue for Subscription and Service excludes Amortization expense on acquired intangible assets.

Summary

Total revenue for the three month period ended September 30, 2024, increased $0.4 million, to $9.4 million, compared to $9.0 million for the corresponding three month period ended September 30, 2023. The increase in revenue primarily reflects $0.4 million of higher subscription revenue, which includes higher subscription revenue from new and existing commercial contracts, partially offset by the delayed timing in the anticipated renewal of a commercial contract.

Total revenue for the nine month period ended September 30, 2024, increased $4.2 million, to $29.8 million, compared to $25.6 million for the corresponding nine month period ended September 30, 2023. The increase in revenue primarily reflects $4.0 million of higher subscription revenue, which includes higher subscription revenue from new and existing commercial contracts, partially offset by the delayed timing in the anticipated renewal of a commercial contract, and $0.2 million of higher service revenue.

Total operating expenses for the three month period ended September 30, 2024, increased $0.9 million, to $17.3 million, compared to $16.4 million for the corresponding three month period ended September 30, 2023. The increase in operating expenses primarily reflects $0.6 million of cash severance costs in 2024 and $0.4 million of lower labor costs allocated to cost of revenue due to the amount and mix of billable labor hours incurred .

Total operating expenses for the nine month period ended September 30, 2024, decreased $0.3 million, to $51.2 million, compared to $51.5 million for the corresponding nine month period ended September 30, 2023. The decrease in operating expenses primarily reflects $0.4 million of lower depreciation and amortization costs, $0.3 million of lower cash compensation costs, and $0.3 million of lower lease impairment expense, partially offset by $0.3 million of higher professional services and consulting costs. The decrease in cash compensation costs primarily reflects $1.5 million of cash severance costs in 2023, partially offset by $0.6 million of cash severance costs in 2024 and $0.5 million of lower cash labor costs allocated to cost of revenue due to the amount and mix of billable labor hours incurred .

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Revenue

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Dollar Increase/(Decrease)	Percent Increase/(Decrease)	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023	Dollar Increase/(Decrease)	Percent Increase/(Decrease)
Revenue:								
Subscription	$ 5,252	$ 4,811	$ 441	9%	$ 17,394	$ 13,374	$ 4,020	30%
Service	4,191	4,183	8	—%	12,366	12,193	173	1%
Total	$ 9,443	$ 8,994	$ 449	5%	$ 29,760	$ 25,567	$ 4,193	16%
Revenue (as % of total revenue):								
Subscription	56%	53%			58%	52%		
Service	44%	47%			42%	48%		
Total	100%	100%			100%	100%		

Subscription

Subscription revenue consists primarily of revenue earned from subscription fees for access to our SaaS platform and products and, to a lesser extent, licensing fees for our software products. The majority of subscription contracts are recurring, paid in advance and recognized over the term of the subscription, which is typically one to three years.

The $0.4 million increase in subscription revenue for the three month period ended September 30, 2024, compared to the corresponding three month period ended September 30, 2023, primarily reflects higher subscription revenue from new and existing commercial contracts, partially offset by the delayed timing in the anticipated renewal of a commercial contract.

The $4.0 million increase in subscription revenue for the nine month period ended September 30, 2024, compared to the corresponding nine month period ended September 30, 2023, primarily reflects higher subscription revenue from new and existing commercial contracts, partially offset by the delayed timing in the anticipated renewal of a commercial contract.

Service

Service revenue consists primarily of revenue earned from the performance of software development services and, to a lesser extent, professional services. The majority of software development contracts are structured as time and materials agreements. Revenue for services is generally recognized as the services are performed. Billing for services rendered generally occurs within one month after the services are provided. Service contracts can range from days to several years in length. Our contract with the Central Banks, which accounts for the majority of our service revenue, has a contract term through December 31, 2029. The contract is subject to work plans that are reviewed and agreed upon quarterly. The contract provides for predetermined billing rates, which are adjusted annually to account for cost of living variables, and provides for the reimbursement of third party costs incurred to support the work plans.

Service revenue for the three month period ended September 30, 2024 remained flat, compared to the corresponding three month period ended September 30, 2023, primarily reflecting $0.4 million of higher service revenue from HolyGrail recycling projects, partially offset by $0.2 million of lower government service revenue due to timing of program work with the Central Banks.

The $0.2 million increase in service revenue for the nine month period ended September 30, 2024, compared to the corresponding nine month period ended September 30, 2023, primarily reflects higher government service revenue due to timing of program work with the Central Banks.

Revenue by geography

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Dollar Increase/(Decrease)	Percent Increase/(Decrease)	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023	Dollar Increase/(Decrease)	Percent Increase/(Decrease)
Revenue by geography:								
Domestic	$2,004	$2,921	$ (917)	(31)%	$ 8,349	$ 8,541	$ (192)	(2)%
International	7,439	6,073	1,366	22%	21,411	17,026	4,385	26%
Total	$9,443	$8,994	$ 449	5%	$ 29,760	$ 25,567	$ 4,193	16%
Revenue (as % of total revenue):								
Domestic	21%	32%			28%	33%		
International	79%	68%			72%	67%		
Total	100%	100%			100%	100%		

Domestic

The $0.9 million decrease in domestic revenue for the three month period ended September 30, 2024, compared to the corresponding three month period ended September 30, 2023, primarily reflects $0.7 million of lower subscription revenue, which includes the impact of the delayed timing in the anticipated renewal of a commercial contract with a domestic customer, partially offset by higher subscription revenue from new and existing commercial contracts with domestic customers.

The $0.2 million decrease in domestic revenue for the nine month period ended September 30, 2024, compared to the corresponding nine month period ended September 30, 2023, primarily reflects $0.1 million of lower subscription revenue, which includes the impact of the delayed timing in the anticipated renewal of a commercial contract with a domestic customer, partially offset by higher subscription revenue from new and existing commercial contracts with domestic customers.

International

The $1.4 million increase in international revenue for the three month period ended September 30, 2024, compared to the corresponding three month period ended September 30, 2023, primarily reflects $1.1 million of higher subscription revenue from new and existing commercial contracts with international customers.

The $4.4 million increase in international revenue for the nine month period ended September 30, 2024, compared to the corresponding nine month period ended September 30, 2023, primarily reflects $4.1 million of higher subscription revenue from new and existing commercial contracts with international customers and $0.2 million of higher government service revenue due to timing of program work with the Central Banks.

Revenue by market

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Dollar Increase/(Decrease)	Percent Increase/(Decrease)	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023	Dollar Increase/(Decrease)	Percent Increase/(Decrease)
Commercial:								
Subscription	$4,952	$4,511	$ 441	10%	$16,494	$12,474	$ 4,020	32%
Service	430	213	217	102%	864	849	15	2%
Total Commercial	$5,382	$4,724	$ 658	14%	$17,358	$13,323	$ 4,035	30%
Government:								
Subscription	$ 300	$ 300	$ —	—%	$ 900	$ 900	$ —	—%
Service	3,761	3,970	(209)	(5)%	11,502	11,344	158	1%
Total Government	$4,061	$4,270	$ (209)	(5)%	$12,402	$12,244	$ 158	1%
Total	$9,443	$8,994	$ 449	5%	$29,760	$25,567	$ 4,193	16%
Revenue (as % of total revenue):								
Commercial	57%	53%			58%	52%		
Government	43%	47%			42%	48%		
Total	100%	100%			100%	100%		

Commercial

The $0.7 million increase in commercial revenue for the three month period ended September 30, 2024, compared to the corresponding three month period ended September 30, 2023, primarily reflects $0.4 million of higher commercial subscription revenue, which includes higher subscription revenue from new and existing commercial contracts, partially offset by the delayed timing in the anticipated renewal of a commercial contract, and $0.4 million of higher service revenue from HolyGrail recycling projects.

The $4.0 million increase in commercial revenue for the nine month period ended September 30, 2024, compared to the corresponding nine month period ended September 30, 2023, primarily reflects $4.0 million of higher commercial subscription revenue, which includes higher subscription revenue from new and existing commercial contracts, partially offset by the delayed timing in the anticipated renewal of a commercial contract.

Government

The $0.2 million decrease in government revenue for the three month period ended September 30, 2024, compared to the corresponding three month period ended September 30, 2023, primarily reflects lower government service revenue due to timing of program work with the Central Banks.

The $0.2 million increase in government revenue for the nine month period ended September 30, 2024, compared to the corresponding nine month period ended September 30, 2023, primarily reflects higher government service revenue due to timing of program work with the Central Banks.

Annual Recurring Revenue ("ARR")

	As of September 30, 2024	As of September 30, 2023	Dollar Increase (Decrease)	Percent Increase (Decrease)
ARR	$ 18,674	$ 19,559	$ (885)	(5)%

ARR decreased $0.9 million, or 5% from September 30, 2023 to September 30, 2024, reflecting a $5.8 million decrease due to the delayed timing in the anticipated renewal of a commercial contract, partially offset by new annual recurring revenue from entry into new commercial subscription contracts and increased subscription fees on existing commercial contracts.

We provide an ARR performance metric to help investors better understand and assess the performance of our business because our mix of revenue generated from recurring sources has increased in recent years. ARR is calculated as the aggregation of annualized subscription fees from all of our commercial contracts as of the measurement date. ARR does not have any standardized meaning and is therefore unlikely to be comparable to similarly titled measures presented by other companies. ARR should be viewed independently of revenue and deferred revenue and is not intended to be combined with, or to replace, either of those items. ARR is not a forecast and the active contracts at the end of a reporting period used in calculating ARR may or may not be extended or renewed by our customers.

Cost of revenue

Subscription. Cost of subscription revenue primarily includes:

- internet cloud hosting costs and image search data fees to support our subscription products; and
- amortization of capitalized patent costs and patent maintenance fees.

Service. Cost of service revenue primarily includes:

- compensation, benefits, incentive compensation in the form of cash and stock-based compensation and related costs of our software developers, quality assurance personnel, professional services team and other personnel where we bill our customers for time and materials costs;
- payments to outside contractors that are billed to customers;
- charges for equipment directly used by customers;
- depreciation for equipment and software directly used by customers; and
- travel costs that are billed to customers.

Amortization expense on acquired intangible assets includes:

- amortization expense recognized on the developed technology intangible asset acquired in the EVRYTHNG acquisition.

Gross profit

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Dollar Increase/(Decrease)	Percent Increase/(Decrease)	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023	Dollar Increase/(Decrease)	Percent Increase/(Decrease)
Gross Profit:								
Subscription (1)	$ 4,517	$ 4,113	$ 404	10%	$15,189	$11,110	$ 4,079	37%
Service (1)	2,553	2,245	308	14%	7,228	6,572	656	10%
Amortization expense on acquired intangible assets	(1,173)	(1,135)	(38)	(3)%	(3,445)	(3,346)	(99)	(3)%
Total	$ 5,897	$ 5,223	$ 674	13%	$18,972	$14,336	$ 4,636	32%
Gross Profit Margin:								
Subscription (1)	86%	85%			87%	83%		
Service (1)	61%	54%			58%	54%		
Total	62%	58%			64%	56%		

(1) Gross Profit and Gross Profit Margin for Subscription and Service excludes Amortization expense on acquired intangible assets.

The $0.7 million increase in total gross profit for the three month period ended September 30, 2024, compared to the corresponding three month period ended September 30, 2023, primarily reflects $0.4 million of higher subscription revenue and $0.2 million of lower costs of revenue.

The $4.6 million increase in total gross profit for the nine month period ended September 30, 2024, compared to the corresponding nine month period ended September 30, 2023, primarily reflects $4.0 million of higher subscription revenue, and $0.4 million of lower costs of revenue.

The increase in subscription gross profit margin, excluding amortization expense on acquired intangible assets, for the three month period ended September 30, 2024, compared to the corresponding three month period ended September 30, 2023, primarily reflects higher subscription revenue.

The increase in subscription gross profit margin, excluding amortization expense on acquired intangible assets, for the nine month period ended September 30, 2024, compared to the corresponding nine month period ended September 30, 2023, primarily reflects higher subscription revenue combined with a favorable mix of subscription revenue.

The increase in service gross profit margin, excluding amortization expense on acquired intangible assets, for the three month period ended September 30, 2024, compared to the corresponding three month period ended September 30, 2023, primarily reflects a favorable mix of service revenue in 2024.

The increase in service gross profit margin, excluding amortization expense on acquired intangible assets, for the nine month period ended September 30, 2024, compared to the corresponding nine month period ended September 30, 2023, primarily reflects higher professional service costs incurred in 2023 and a favorable mix of service revenue in 2024.

Operating expenses

Sales and marketing

	Three Months Ended September 30,		Dollar	Percent	Nine Months Ended September 30,		Dollar	Percent
	2024	2023	Increase/(Decrease)	Increase/(Decrease)	2024	2023	Increase/(Decrease)	Increase/(Decrease)
Sales and marketing	$ 5,637	$ 5,366	$ 271	5%	$ 16,789	$ 16,770	$ 19	—%
Sales and marketing (as % of total revenue)	60%	60%			56%	66%		

Sales and marketing expenses consist primarily of:

- compensation, benefits, incentive compensation in the form of cash and stock-based compensation and related costs of our sales, marketing, product, operations and customer support personnel;
- travel and market research costs, and costs associated with marketing programs, such as trade shows, public relations and new product launches;
- professional services, consulting and outside contractor costs for sales and marketing and product initiatives; and
- the allocation of facilities and information technology costs.

The $0.3 million increase in sales and marketing expenses for the three month period ended September 30, 2024, compared to the corresponding three month period ended September 30, 2023, primarily reflects:

- cash severance costs of $0.6 million in 2024; partially offset by
- lower cash compensation costs of $0.2 million primarily reflecting lower headcount, net of annual compensation adjustments.

The changes in sales and marketing expenses for the nine month period ended September 30, 2024, compared to the corresponding nine month period ended September 30, 2023, primarily reflects:

- cash severance costs of $0.6 million in 2024;
- lower labor costs allocated to cost of revenue of $0.4 million due to the amount and mix of billable labor hours incurred; and
- higher stock compensation costs of $0.3 million; partially offset by
- cash severance costs of $0.6 million in 2023; and
- lower professional services and consulting costs of $0.4 million.

Research, development and engineering

	Three Months Ended September 30,		Dollar	Percent	Nine Months Ended September 30,		Dollar	Percent
	2024	2023	Increase/(Decrease)	Increase/(Decrease)	2024	2023	Increase/(Decrease)	Increase/(Decrease)
Research, development and engineering	$ 6,488	$ 6,308	$ 180	3%	$ 19,873	$ 20,295	$ (422)	(2)%
Research, development and engineering (as % of total revenue)	69%	70%			67%	79%		

Research, development and engineering expenses consist primarily of:

- compensation, benefits, incentive compensation in the form of cash and stock-based compensation and related costs of our software developers and quality assurance personnel;
- payments to outside contractors for software development services;
- the purchase of materials and services for product development; and
- the allocation of facilities and information technology costs.

The $0.2 million increase in research, development and engineering expenses for the three month period ended September 30, 2024, compared to the corresponding three month period ended September 30, 2023, primarily reflects:

- higher cash headcount costs of $0.2 million, primarily reflecting annual compensation adjustments.

The $0.4 million decrease in research, development and engineering expenses for the nine month period ended September 30, 2024, compared to the corresponding nine month period ended September 30, 2023, primarily reflects:

- cash severance costs of $0.8 million in 2023; and

- lower stock compensation costs of $0.4 million; partially offset by

- higher professional and consulting costs of $0.6 million.

General and administrative

	Three Months Ended September 30,		Dollar	Percent	Nine Months Ended September 30,		Dollar	Percent
	2024	**2023**	**Increase/(Decrease)**	**Increase/(Decrease)**	**2024**	**2023**	**Increase/(Decrease)**	**Increase/(Decrease)**
General and administrative	$ 4,861	$ 4,433	$ 428	10%	$ 13,695	$ 13,412	$ 283	2%
General and administrative (as % of total revenue)	51%	49%			46%	52%		

We incur general and administrative costs in the functional areas of finance, legal, human resources, intellectual property, executive and board of directors. Costs for facilities and information technology are also managed as part of the general and administrative processes and are allocated to this area as well as sales and marketing and research, development and engineering.

General and administrative expenses consist primarily of:

- compensation, benefits and incentive compensation in the form of cash and stock-based compensation and related costs of our general and administrative personnel;

- third party and professional fees associated with legal, accounting and human resources functions;

- costs associated with being a public company;

- third party costs, including filing and governmental regulatory fees and outside legal fees and translation costs, related to the filing and maintenance of our intellectual property; and

- infrastructure and centralized costs for facilities and information technology.

The $0.4 million increase in general and administrative expenses for the three month period ended September 30, 2024 , compared to the corresponding three month period ended September 30, 2023, primarily reflects:

- higher professional services and consulting costs of $0.3 million; and

- higher compensation costs of $0.2 million, primarily reflecting annual compensation adjustments; partially offset by

- lower depreciation and amortization costs of $0.2 million.

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The $0.3 million increase in general and administrative expenses for the nine month period ended September 30, 2024 , compared to the corresponding nine month period ended September 30, 2023, primarily reflects:

- higher stock compensation of $0.2 million; and
- higher other costs of $0.2 million; partially offset by
- lower depreciation and amortization expense of $0.2 million.

Amortization expense on acquired intangible assets

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Dollar Increase/(Decrease)	Percent Increase/(Decrease)	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023	Dollar Increase/(Decrease)	Percent Increase/(Decrease)
Amortization expense on acquired intangible assets	$ 280	$ 272	$ 8	3%	$ 823	$ 800	$ 23	3%
Amortization expense on acquired intangible assets (as % of total revenue)	3%	3%			3%	3%		

Amortization expense on acquired intangible assets relates to amortization expense recognized on the customer relationships intangible asset acquired in the EVRYTHNG acquisition.

The increases in amortization expense on acquired intangible assets reflect the impact of changes in foreign currency exchange rates.

Impairment of lease right of use assets and leasehold improvements

	Three Months Ended September 30, 2024	Three Months Ended September 30, 2023	Dollar Increase/(Decrease)	Percent Increase/(Decrease)	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023	Dollar Increase/(Decrease)	Percent Increase/(Decrease)
Impairment of lease right of use assets and leasehold improvements	$ —	$ —	$ —	—%	$ —	$ 250	$ (250)	(100)%
Impairment of lease right of use assets and leasehold improvements (as % of total revenue)	—%	—%			—%	1%		

The $0.3 million decrease in impairment of lease right of use assets and leasehold improvements relates to an impairment charge recorded for the nine months ended September 30, 2023 on our former corporate headquarters in Beaverton, Oregon. The lease on our former corporate headquarters expired on March 31, 2024.

Stock-based compensation

	Three Months Ended September 30,		Dollar	Percent	Nine Months Ended September 30,		Dollar	Percent
	2024	2023	Increase/(Decrease)	Increase/(Decrease)	2024	2023	Increase/(Decrease)	Increase/(Decrease)
Cost of revenue	$ 154	$ 310	$ (156)	(50)%	$ 563	$ 866	$ (303)	(35)%
Sales and marketing	688	606	82	14%	2,198	1,930	268	14%
Research, development and engineering	648	658	(10)	(2)%	1,911	2,269	(358)	(16)%
General and administrative	1,212	1,118	94	8%	3,267	3,081	186	6%
Total	$ 2,702	$ 2,692	$ 10	—%	$ 7,939	$ 8,146	$ (207)	(3)%

The changes in stock-based compensation expense for the three month period ended September 30, 2024, compared to the corresponding three month period ended September 30, 2023 were insignificant.

The decrease in stock-based compensation expense for the nine month period ended September 30, 2024, compared to the corresponding nine month period ended September 30, 2023, primarily reflects $0.6 million of stock-based severance costs incurred in 2023 and the reversal of stock compensation expense of $0.4 million on unvested stock awards that were forfeited, partially offset by a higher value of employee equity awards.

We anticipate incurring an additional $16.0 million in stock-based compensation expense through September 30, 2028, for stock awards outstanding as of September 30, 2024.

Other income, net

	Three Months Ended September 30,		Dollar	Percent	Nine Months Ended September 30,		Dollar	Percent
	2024	2023	Increase/(Decrease)	Increase/(Decrease)	2024	2023	Increase/(Decrease)	Increase/(Decrease)
Other income, net	$ 617	$ 478	139	29%	$ 1,868	$ 1,870	(2)	—%
Other income, net (as % of total revenue)	7%	5%			6%	7%		

The increase in other income, net for the three month period ended September 30, 2024, compared to the corresponding three month period ended September 30, 2023, primarily reflects higher interest income.

The changes in other income, net for the nine month period ended September 30, 2024, compared to the corresponding nine month period ended September 30, 2023, primarily reflects lower refundable tax credits, partially offset by higher interest income.

Income Taxes

The provision for income taxes reflects current taxes and deferred taxes. The effective tax rate for each of the nine month periods ended September 30, 2024 and 2023 was 0%. Our effective tax rate is significantly lower than our statutory tax rate because we have a valuation allowance recorded against our deferred tax assets.

The valuation allowance against deferred tax assets as of September 30, 2024, was $104.1 million, an increase of $8.9 million from $95.3 million as of December 31, 2023.

We continually assess the applicability of a valuation allowance against our deferred tax assets. Based upon the positive and negative evidence available as of September 30, 2024, and largely due to the cumulative loss incurred by us over the last several years, which is considered a significant piece of negative evidence when assessing the realizability of deferred tax assets, a valuation allowance is recorded against our deferred tax assets. We will not record tax benefits on any future losses until it is determined that those tax benefits will be realized. Future reversals of the valuation allowance would result in a tax benefit in the period recognized.

Non-GAAP Financial Measures

The following discussion and analysis includes both financial measures in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") as well as non-GAAP financial measures. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flows that exclude amounts that are not normally excluded in the most directly comparable measure calculated and presented 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. Investors should not consider non-GAAP financial measures in isolation or as substitutes for performance measures calculated in accordance with GAAP. Our management uses and relies on Non-GAAP gross profit, Non-GAAP gross profit margin, Non-GAAP operating expenses, Non-GAAP net loss, and Non-GAAP loss per share (diluted), which are all non-GAAP financial measures. We believe that both management and shareholders benefit from referring to the following non-GAAP financial measures in planning, forecasting and analyzing future periods.

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. Our management recognizes that the non-GAAP financial measures have inherent limitations because of the described excluded items.

We define Non-GAAP gross profit, Non-GAAP gross profit margin, Non-GAAP operating expenses, Non-GAAP net loss, and Non-GAAP loss per share (diluted) excluding the adjustments in the table below. 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 can affect comparability.

We have included a reconciliation of our financial measures calculated in accordance with GAAP to the most comparable non-GAAP financial measures. We believe that providing the non-GAAP financial measures, together with the reconciliation to GAAP, helps 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 definitions being used and to the reconciliation between such measures and the corresponding GAAP measures provided by each company under applicable SEC rules.

The following table presents a reconciliation of Non-GAAP gross profit, Non-GAAP gross profit margin, Non-GAAP operating expenses, Non-GAAP net loss, and Non-GAAP loss per share (diluted) for the three and nine months ended September 30, 2024 and 2023:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
GAAP gross profit	$ 5,897	$ 5,223	$ 18,972	$ 14,336
Amortization of acquired intangible assets	1,173	1,135	3,445	3,346
Amortization and write-off of other intangible assets	136	143	410	433
Stock-based compensation	154	310	563	866
Non-GAAP gross profit	$ 7,360	$ 6,811	$ 23,390	$ 18,981
Non-GAAP gross profit margin	78%	76%	79%	74%
GAAP operating expenses	$ 17,266	$ 16,379	$ 51,180	$ 51,527
Depreciation and write-off of property and equipment	(179)	(223)	(570)	(911)
Amortization of acquired intangible assets	(280)	(272)	(823)	(800)
Amortization and write-off of other intangible assets	(77)	(228)	(241)	(276)
Amortization of lease right of use assets under operating leases	(90)	(94)	(263)	(426)
Stock-based compensation	(2,548)	(2,382)	(7,376)	(7,280)
Impairment of lease right of use assets and leasehold improvements	—	—	—	(250)
Non-GAAP operating expenses	$ 14,092	$ 13,180	$ 41,907	$ 41,584
GAAP net loss	$ (10,754)	$ (10,723)	$ (30,362)	$ (35,386)
Total adjustments to gross profit	1,463	1,588	4,418	4,645
Total adjustments to operating expenses	3,174	3,199	9,273	9,943
Non-GAAP net loss	$ (6,117)	$ (5,936)	$ (16,671)	$ (20,798)
GAAP loss per share (diluted)	$ (0.50)	$ (0.53)	$ (1.43)	$ (1.76)
Non-GAAP net loss	$ (6,117)	$ (5,936)	$ (16,671)	$ (20,798)
Non-GAAP loss per share (diluted)	$ (0.29)	$ (0.29)	$ (0.79)	$ (1.03)

Non-GAAP gross profit for the three months ended September 30, 2024, increased by $0.5 million compared to the three months ended September 30, 2023. The increase primarily reflects higher subscription revenue.

Non-GAAP gross profit for the nine months ended September 30, 2024, increased by $4.4 million compared to the nine months ended September 30, 2023. The increase primarily reflects higher subscription revenue.

Non-GAAP gross profit margin for the three months ended September 30, 2024, increased to 78% compared to 76% for the three months ended September 30, 2023. The increase primarily reflects higher subscription revenue.

Non-GAAP gross profit margin for the nine months ended September 30, 2024, increased to 79% compared to 74% for the nine months ended September 30, 2023. The increase primarily reflects higher subscription revenue combined with a favorable mix of subscription revenue.

Non-GAAP operating expenses for the three months ended September 30, 2024, increased by $0.9 million compared to the three months ended September 30, 2023. The increase primarily reflects $0.6 million of cash severance costs and $0.2 million of lower cash labor costs allocated to cost of revenue due to the amount and mix of billable labor hours incurred.

Non-GAAP operating expenses for the nine months ended September 30, 2024, increased by $0.3 million compared to the nine months ended September 30, 2023. The increase primarily reflects $0.3 million of higher professional service and consulting costs and $0.1 million of higher other costs, partially offset by lower cash compensation costs of $0.3 million. The decrease in cash compensation costs primarily reflects $1.5 million of cash severance costs in 2023, partially offset by $0.6 million of cash severance costs in 2024, and $0.5 million of lower cash labor costs allocated to cost of revenue due to the amount and mix of billable labor hours incurred.

Liquidity and Capital Resources

	September 30, 2024	December 31, 2023
Working capital	$ 35,412	$ 24,555
Current ratio (1)	4.8:1	3:1
Cash, cash equivalents and short-term marketable securities	$ 33,686	$ 27,182
Long-term marketable securities	—	—
Total cash, cash equivalents and marketable securities	$ 33,686	$ 27,182

(1) The current ratio is calculated by dividing total current assets by total current liabilities.

The $6.5 million increase in cash, cash equivalents and marketable securities at September 30, 2024, from December 31, 2023, resulted primarily from:

- net proceeds from the issuance of common stock; partially offset by
- cash used in operations;
- purchases of common stock related to tax withholding in connection with the vesting of restricted stock, restricted stock units, and performance restricted stock units; and
- purchases of property and equipment and capitalized patent costs.

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, and trade accounts receivable. We place our cash and cash equivalents with major banks and financial institutions and at times deposits may exceed insured limits. Marketable securities include commercial paper, federal agency notes, money market securities, and U.S. treasuries. Our investment policy requires our portfolio to be invested to ensure that the greater of $3.0 million or 7% of the invested funds will be available within 30 days' notice.

Other than cash used for operating needs, which may include short-term marketable securities, our investment policy limits our credit exposure to any one financial institution or type of financial instrument by limiting the maximum of 5% of our cash and cash equivalents and marketable securities or $1.0 million, whichever is greater, to be invested in any one issuer except for the U.S. government, U.S. federal agencies and U.S.-backed securities, which have no limits, at the time of purchase. Our investment policy also limits our credit exposure by limiting to a maximum of 40% of our cash and cash equivalents and marketable securities, or $15.0 million, whichever is greater, to be invested in any one industry category (e.g., financial, energy, etc.) at the time of purchase. As a result, we believe our credit risk associated with cash and investments to be minimal.

A decline in the market value of any security that is deemed to be other-than-temporary is charged to earnings. To determine whether an impairment is other-than-temporary, we consider whether we have the ability and intent to hold the investment until a market price recovery and evidence indicating that the cost of the investment is recoverable outweighs evidence to the contrary. There have been no other-than-temporary impairments identified or recorded by us for the three and nine months ended September 30, 2024 and 2023.

Cash flows from operating activities

The components of cash flows used in operating activities were:

	Nine Months Ended September 30, 2024	Nine Months Ended September 30, 2023	Dollar Increase/(Decrease)	Percent Increase/(Decrease)
Net loss	$ (30,362)	$ (35,386)	$ (5,024)	(14)%
Non-cash items	13,787	14,588	801	5%
Changes in operating assets and liabilities	(5,762)	4,119	9,881	240%
Net cash used in operating activities	$ (22,337)	$ (16,679)	$ 5,658	34%

Cash flows used in operating activities for the nine month period ended September 30, 2024, increased by $5.7 million, compared to the corresponding nine month period ended September 30, 2023, primarily as a result of $9.9 million from unfavorable timing of changes in operating assets and liabilities, and $0.8 million of lower non-cash items included in net loss, partially offset by $5.0 million lower net loss. The unfavorable timing of changes in operating assets and liabilities are largely due to the timing of customer billings and receipts, and the amount and timing of collecting the refundable tax credits. The change in non-cash items primarily reflects lower depreciation and write-off of property and equipment, lower impairment of lease right of use assets and leasehold improvements, and lower stock-based compensation.

Cash flows from investing activities

Cash flows from investing activities for the nine month period ended September 30, 2024, compared to the corresponding nine month period ended September 30, 2023, decreased by $20.4 million. The decrease primarily reflects higher purchases of marketable securities, and lower net proceeds from maturities of marketable securities.

Cash flows from financing activities

Cash flows from financing activities for the nine month period ended September 30, 2024, compared to the corresponding nine month period ended September 30, 2023, increased by $31.4 million. The increase primarily reflects the $32.2 million of net cash proceeds raised from our registered direct stock offering in February 2024, partially offset by higher purchases of common stock.

Future Cash Expectations

We believe that our current cash, cash equivalents, and marketable securities balances will satisfy our projected working capital and capital expenditure requirements for at least the next 12 months.

Registered Direct Offering

On February 24, 2024, we entered into purchase agreements with certain investors providing for the issuance and sale by us of 929 thousand shares of our common stock in a registered direct stock offering. The common shares were offered at a price of $35.00 per share, and the gross cash proceeds to us were $32.5 million. We incurred $0.3 million of legal costs related to the offering. The closing of the registered direct offering occurred on February 27, 2024.

Shelf Registration

On June 23, 2023, we filed a new shelf registration statement on Form S-3 that included $34.6 million of unsold securities from our prior shelf registration statement filed on June 5, 2020. The new shelf registration statement became effective on July 19, 2023, and expires on July 19, 2026. Under the new shelf registration statement, we may sell securities in one or more offerings up to $100.0 million. As of September 30, 2024, $67.5 million remained available under the new shelf registration statement.

We may sell shares under the shelf registration and/or use similar or other financing means to raise working capital in the future, if necessary, to support continued investment in our growth initiatives. We may also raise capital in the future to fund acquisitions and/or investments in complementary businesses, technologies or product lines. If it becomes necessary to obtain additional financing, we may not be able to do so, or if these funds are available, they may not be available on satisfactory terms.

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This Quarterly Report on Form 10-Q includes “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and Section 27A of the Securities Act of 1933. Words such as “may,” “might,” “plan,” “should,” “could,” “expect,” “anticipate,” “intend,” “believe,” “project,” “forecast,” “estimate,” “continue,” and variations of such terms or similar expressions are intended to identify such forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These forward-looking statements, or other statements made by us, are made based on our expectations and beliefs concerning future events impacting us, and are subject to uncertainties and factors (including those specified below), which are difficult to predict and, in many instances, are beyond our control. As a result, our actual results could differ materially from those expressed in or implied by any such forward-looking statements, and investors are cautioned not to place undue reliance on such statements. We believe that the following factors, among others (including those described in Item 1A. “Risk Factors” of our 2023 Annual Report), could affect our future performance and the liquidity and value of our securities and cause our actual results to differ materially from those expressed or implied by forward-looking statements made by us. Forward-looking statements include but are not limited to statements relating to:

- the concentration of most of our revenue among few customers;
- trends and sources of future revenue;
- anticipated successful advocacy of our technology by our partners;
- the terms and timing of anticipated contract renewals;
- our belief regarding the global deployment of our products;
- our beliefs regarding potential outcomes of participating in the HolyGrail initiative and the utility of our products in the recycling industry;
- our future level of investment in our business, including investment in research, development and engineering of products and technology, development of our intellectual property, sales growth initiatives and development of new market opportunities;
- anticipated expenses, costs, margins, provision for income taxes and investment activities in the foreseeable future;
- our assumptions and expectations related to stock awards;
- our belief that we have one of the world’s most extensive patent portfolios in digital watermarking and related fields;
- anticipated effect of our adoption of accounting pronouncements;
- our beliefs regarding our critical accounting policies;
- our expectations regarding the impact of accounting pronouncements issued but not yet adopted;
- anticipated revenue to be generated from current contracts, renewals, and as a result of new programs;
- our estimates, judgments and assumptions related to impairment testing;
- variability of contracted arrangements in response to changes in circumstances underlying the original contractual arrangements;

- business opportunities that could require that we seek additional financing and our ability to do so;
- the size and growth of our markets and our assumptions and beliefs related to those markets;
- the existence of international growth opportunities and our future investment in such opportunities;
- our expected short-term and long-term liquidity positions;
- our capital expenditure and working capital requirements and our ability to fund our capital expenditure and working capital needs through cash flow from operations or financing;
- our expectations regarding our ability to meet future financial obligations as they become due within the coming fiscal year;
- the effect of computerized trading on our stock price;
- capital market conditions, our expectations regarding credit risk exposure, interest rate volatility and other limitations on the availability of capital, which could have an impact on our cost of capital and our ability to access the capital markets;
- our use of cash, cash equivalents and marketable securities in upcoming quarters and the possibility that our deposits of cash and cash equivalents with major banks and financial institutions may exceed insured limits;
- the strength of our competitive position and our ability to innovate and enhance our competitive differentiation;
- our beliefs related to our existing facilities;
- protection, development and monetization of our intellectual property portfolio;
- our beliefs related to our relationship with our employees and the effect of increasing diversity within our workforce;
- our beliefs regarding cybersecurity incidents;
- our beliefs related to certain provisions in our bylaws and articles of incorporation; and
- our beliefs related to legal proceedings and claims arising in the ordinary course of business.

We believe that the risk factors specified above and the risk factors contained in 2023 Part I, Item 1A. “Risk Factors” of our 2023 Annual Report, among others, could affect our future performance and the liquidity and value of our securities and cause our actual results to differ materially from those expressed or implied by forward-looking statements made by us or on our behalf. Investors should understand that it is not possible to predict or identify all risk factors and that there may be other factors that may cause our actual results to differ materially from the forward-looking statements. All forward-looking statements made by us or by persons acting on our behalf apply only as of the date of this Quarterly Report on Form 10-Q. We do not undertake any obligation to publicly update or revise any forward-looking statements to reflect future events, information or circumstances that arise after the date of the filing of this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not applicable.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We conducted an evaluation (pursuant to Rule 13a-15(b) of the Exchange Act), under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q. These disclosure controls and procedures are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that this information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Based on the evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures, as of the end of the period covered by this Quarterly Report on Form 10-Q, were effective.

Changes in Controls

There were no changes in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) of the Exchange Act) that occurred during the three month period ended September 30, 2024, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION.

Item 1. Legal Proceedings.

We are subject from time to time to legal proceedings and claims arising in the ordinary course of business. At this time, we do not believe that the resolution of any such matters will have a material adverse effect on our financial position, results of operations or cash flows.

Item 1A. Risk Factors

Our business, financial condition, results of operations and cash flows may be affected by a number of factors. Detailed information about risk factors that may affect Digimarc's actual results are set forth in Part I, Item 1A: "Risk Factors" of our 2023 Annual Report. The risks and uncertainties described in our 2023 Annual Report are those risks of which we are aware and that we consider to be material to our business. If any of those risks and uncertainties develop into actual events, our business, financial condition, results of operations or cash flows could be materially adversely affected. In that case, the trading price of our common stock could decline. As of September 30, 2024, there have been no material changes to the risk factors previously disclosed in our 2023 Annual Report.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchases

We repurchase shares of common stock in satisfaction of required withholding of income tax liability in connection with the vesting of restricted stock, restricted stock units and performance restricted stock units.

The following table sets forth information regarding purchases of our equity securities during the three month period ended September 30, 2024:

Period	(a) Total number of shares purchased (1)	(b) Average price paid per share (1)	(c) Total number of shares purchased as part of publicly announced plans or programs	(d) Approximate dollar value of shares that may yet be purchased under the plans or programs
Month 1				
July 1, 2024 to July 31, 2024	—	$ —	—	$ —
Month 2				
August 1, 2024 to August 31, 2024	21,315	$ 26.01	—	$ —
Month 3				
September 1, 2024 to September 30, 2024	68	$ 27.40	—	$ —
Total	21,383	$ 26.01	—	$ —

(1) Shares of common stock withheld (purchased) by us in satisfaction of required withholding of income tax liability upon vesting of restricted stock, restricted stock units and performance restricted stock units.

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Item 6. Exhibits.

Exhibit Number	Exhibit Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1350 Certification of Chief Financial Officer
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (formatted in Inline XBRL and contained in Exhibit 101)

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 14, 2024

DIGIMARC CORPORATION

By: /s/ CHARLES BECK

CHARLES BECK
Chief Financial Officer
(Duly Authorized Officer and Principal Financial and Accounting Officer)

Exhibit 31.1

DIGIMARC CORPORATION
CERTIFICATION

I, Riley McCormack, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Digimarc Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2024

By: /S/ RILEY MCCORMACK
RILEY MCCORMACK
Chief Executive Officer

Exhibit 31.2

DIGIMARC CORPORATION
CERTIFICATION

I, Charles Beck, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Digimarc Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2024

By: /S/ CHARLES BECK
CHARLES BECK
Chief Financial Officer

Exhibit 32.1

DIGIMARC CORPORATION
CERTIFICATION

In connection with the periodic report of Digimarc Corporation (the "Company") on Form 10-Q for the period ended September 30, 2024 as filed with the Securities and Exchange Commission (the "Report"), I, Riley McCormack, Chief Executive Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the U.S. Code, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, "filed" with the Securities and Exchange Commission.

Date: November 14, 2024

By: /S/ RILEY MCCORMACK
RILEY MCCORMACK
Chief Executive Officer

Exhibit 32.2

DIGIMARC CORPORATION
CERTIFICATION

In connection with the periodic report of Digimarc Corporation (the “Company”) on Form 10-Q for the period ended September 30, 2024 as filed with the Securities and Exchange Commission (the “Report”), I, Charles Beck, Chief Financial Officer of the Company, hereby certify as of the date hereof, solely for purposes of Title 18, Chapter 63, Section 1350 of the U.S. Code, that to the best of my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company at the dates and for the periods indicated.

This Certification has not been, and shall not be deemed, “filed” with the Securities and Exchange Commission.

Date: November 14, 2024

By: /S/ CHARLES BECK
CHARLES BECK
Chief Financial Officer