

DIGIMARC CORP  
Form 10-Q  
August 01, 2008

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark  
One)

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

For the quarterly period ended June 30, 2008

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: 000-28317

**DIGIMARC CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**94-3342784**  
(I.R.S. Employer Identification No.)

**9405 SW Gemini Drive, Beaverton, Oregon 97008**  
(Address of principal executive offices) (Zip Code)

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

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer <input type="checkbox"/>	Accelerated filer <input checked="" type="checkbox"/>	Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>
		(Do not check if a smaller reporting company)	

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

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As of July 29, 2008, there were 24,566,078 shares of the registrant's common stock, par value \$0.001 per share, outstanding.

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## Table of Contents

**PART I FINANCIAL INFORMATION**

Item 1.	Financial Statements:	3
	Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007 (Unaudited)	3
	Consolidated Statements of Operations for the three- and six-months ended June 30, 2008 and 2007 (Unaudited)	4
	Consolidated Statements of Stockholders' Equity as of June 30, 2008 and December 31, 2007 (Unaudited)	5
	Consolidated Statements of Cash Flows for the six-months ended June 30, 2008 and 2007 (Unaudited)	6
	Notes to Consolidated Financial Statements (Unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	48
Item 4.	Controls and Procedures	48

**PART II OTHER INFORMATION**

Item 1.	Legal Proceedings	50
Item 1A.	Risk Factors	51
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	64
Item 4.	Submission of Matters to a Vote of Security Holders	64
Item 6.	Exhibits	64

<b>SIGNATURES</b>		65
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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements.

**DIGIMARC CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

(In thousands, except share data)

(UNAUDITED)

	June 30, 2008	December 31, 2007(1)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 24,492	\$ 19,582
Restricted cash		205
Short-term investments	3,849	3,568
Trade accounts receivable, net	17,481	18,498
Inventory, net	5,035	7,316
Other current assets	3,587	2,628
<b>Total current assets</b>	<b>54,444</b>	<b>51,797</b>
Restricted cash	8,573	9,358
Property and equipment, net	68,929	66,277
Intangibles, net	12,578	13,462
Other assets, net	1,240	1,129
<b>Total assets</b>	<b>\$ 145,764</b>	<b>\$ 142,023</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 7,471	\$ 6,092
Accrued payroll and related costs	4,140	1,952
Deferred revenue	5,078	6,239
Other current liabilities	2,131	1,955
<b>Total current liabilities</b>	<b>18,820</b>	<b>16,238</b>
Long-term deferred revenue, net of current portion	7,138	7,007
Other long-term liabilities	1,141	1,455
<b>Total liabilities</b>	<b>27,099</b>	<b>24,700</b>
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock (22,508,533 and 21,838,375 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively)	23	22
Additional paid-in capital	221,998	217,341
Accumulated deficit	(103,356)	(100,040)
<b>Total stockholders' equity</b>	<b>118,665</b>	<b>117,323</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 145,764</b>	<b>\$ 142,023</b>

(1)

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Derived from the Company's December 31, 2007 audited consolidated financial statements

See Notes to Unaudited Consolidated Financial Statements.

## DIGIMARC CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenue:				
Service	\$25,920	\$22,538	\$50,594	\$43,837
Product and subscription	4,825	4,826	10,721	10,373
Total revenue	30,745	27,364	61,315	54,210
Cost of revenue:				
Service	17,432	15,089	33,635	29,804
Product and subscription	1,907	1,988	4,327	4,088
Total cost of revenue	19,339	17,077	37,962	33,892
Gross profit	11,406	10,287	23,353	20,318
Operating expenses:				
Sales and marketing	4,473	4,365	9,096	8,642
Research, development and engineering	2,488	1,883	4,766	3,925
General and administrative	4,136	3,809	8,720	7,907
Amortization of intangibles	463	509	883	1,009
Intellectual property	513	476	1,058	975
Acquisition related costs	1,448		2,537	
Total operating expenses	13,521	11,042	27,060	22,458
Operating income (loss)	(2,115)	(755)	(3,707)	(2,140)
Other income (expense), net	362	402	715	784
Income (loss) before provision for income taxes	(1,753)	(353)	(2,992)	(1,356)
(Provision) benefit for income taxes	(202)	(142)	(324)	(161)
Net income (loss)	\$ (1,955)	\$ (495)	\$ (3,316)	\$ (1,517)
Net income (loss) per share basic	\$ (0.09)	\$ (0.02)	\$ (0.15)	\$ (0.07)
Net income (loss) per share diluted	\$ (0.09)	\$ (0.02)	\$ (0.15)	\$ (0.07)
Weighted average shares outstanding basic	21,502	20,898	21,422	20,847
Weighted average shares outstanding diluted	21,502	20,898	21,422	20,847

See Notes to Unaudited Consolidated Financial Statements.

## DIGIMARC CORPORATION

## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(In thousands, except share data)

(UNAUDITED)

	Common stock		Additional	Accumulated	Total
	Shares	Amount	paid-in	deficit	stockholders'
			capital		equity
<b>BALANCE AT DECEMBER 31, 2006</b>	21,191,918	\$ 22	\$ 211,209	\$ (99,740)	\$ 111,491
Initial adjustment to adopt FIN 48				145	145
Exercise of stock options	325,709		1,624		1,624
Issuance of employee stock purchase plan shares	119,143		920		920
Issuance of restricted common stock	309,490				
Purchase and retirement of common stock	(107,885)		(357)		(357)
Stock-based compensation expense			3,945		3,945
Net loss				(445)	(445)
<b>BALANCE AT DECEMBER 31, 2007</b>	21,838,375	22	217,341	(100,040)	117,323
Exercise of stock options	294,426	1	2,121		2,122
Issuance of employee stock purchase plan shares	67,558		509		509
Issuance of restricted common stock	347,280				
Purchase and retirement of common stock	(39,106)		(295)		(295)
Stock-based compensation expense			2,322		2,322
Net loss				(3,316)	(3,316)
<b>BALANCE AT JUNE 30, 2008</b>	22,508,533	\$ 23	\$ 221,998	\$ (103,356)	\$ 118,665

See Notes to Unaudited Consolidated Financial Statements.

## DIGIMARC CORPORATION

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(UNAUDITED)

	Six Months Ended	
	June 30, 2008	June 30, 2007
Cash flows from operating activities:		
Net loss	\$ (3,316)	\$ (1,517)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	9,117	7,801
Stock-based compensation expense	2,322	2,012
Other non-cash charges		(49)
Changes in operating assets and liabilities:		
Restricted cash	990	378
Trade and unbilled accounts receivable	1,017	(1,996)
Inventory, net	2,281	(430)
Other current assets	(959)	(332)
Other assets, net	(111)	54
Accounts payable	1,379	142
Accrued payroll and related costs	2,188	(1,887)
Deferred revenue	(1,030)	2,651

## Description

3.1 Amended and Restated Articles of Incorporation of MidWestOne Financial Group, Inc. filed with the Secretary of State of the State of Iowa on March 14, 2008 (incorporated by reference to Exhibit 3.3 to the Company's Amendment No. 2 to Registration Statement on Form S-4 (File No. 333-147628) filed with the SEC on January 22, 2008), as amended by the Articles of Amendment (First Amendment) filed with the Secretary of State of the State of Iowa on January 23, 2009 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on January 23, 2009) and the Articles of Amendment (Second Amendment) filed with the Secretary of State of the State of Iowa on February 4, 2009 (containing the Certificate of Designations for the Company's Fixed Rate Cumulative Perpetual Preferred Stock, Series A) (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on February 6, 2009).\*

3.2 Amended and Restated By-laws of MidWestOne Financial Group, Inc. (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on January 23, 2009).\*

4.1 Form of stock certificate representing MidWestOne Financial Group, Inc.'s Series A Fixed Rate Cumulative Perpetual Preferred Stock (incorporated by reference from Exhibit 4.1 of the Company's Form 8-K filed with the SEC on February 6, 2009).\*

4.2 Warrant to Purchase Common Stock of MidWestOne Financial Group, Inc., dated February 6, 2009 (incorporated by reference from Exhibit 4.2 of the Company's Form 8-K filed with the SEC on February 6, 2009).\*

5.1 Opinion of Bradley & Riley PC (including consent).\*

10.1 Letter Agreement, dated February 6, 2009, between MidWestOne Financial Group, Inc. and the United States Department of the Treasury, which includes the Securities Purchase Agreement attached thereto, with respect to the issuance and sale of the Series A Preferred Stock and the Warrant (incorporated by reference from Exhibit 10.1 of the Company's Form 8-K filed with the SEC on February 6, 2009).\*

23.1 Consent of KPMG LLP. 23.2 Consent of McGladrey & Pullen, LLP. 23.3 Consent of Bradley & Riley PC (included in Exhibit 5.1).\*

24.1 Power of Attorney (included in the signature page to the registration statement filed October 30, 2009).\*

\* Previously filed.