

Digimarc CORP  
Form 424B5  
August 04, 2016  
**Table of Contents**

**Filed Pursuant to Rule 424(b)(5)  
Registration No. 333-196032**

**The information in this prospectus is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED AUGUST 4, 2016**

**PROSPECTUS SUPPLEMENT**

(To Prospectus dated June 2, 2014)

**Shares**

**Digimarc Corporation Common Stock**

We are offering \_\_\_\_\_ shares of our common stock. Our common stock is listed on The NASDAQ Global Market under the symbol DMRC. On August 3, 2016, the last reported sale price for our common stock on The NASDAQ Global Market was \$34.49 per share.

**Investing in our common stock involves a high degree of risk, which is described in the Risk Factors section beginning on page S-9 of this prospectus supplement and on page 3 of the accompanying prospectus.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	<b>Per Share</b>	<b>Total</b>
Public offering price	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us(1)	\$	\$

(1) See Underwriting for a description of the compensation payable to the underwriters.

We estimate the total expenses of this offering, excluding the underwriting discounts and commissions, will be approximately \$300,000. The underwriters may also purchase up to an additional \_\_\_\_\_ shares of common stock from us at the public offering price, less the underwriting discounts and commissions, for the purpose of covering overallotments made in connection with the offering, if any, within 30 days of the date of this prospectus supplement. If the underwriters exercise this option in full, the total underwriting discounts and commissions payable by us will be \$ \_\_\_\_\_ and the total proceeds, before expenses, to us will be \$ \_\_\_\_\_.

You should carefully read this prospectus supplement and the accompanying prospectus, together with the documents we incorporated by reference, before you invest in our stock.

We anticipate that delivery of the shares of our common stock will be made through the facilities of the Depository Trust Company on or about August \_\_\_\_\_, 2016, subject to customary closing conditions.

***Joint Book-Running Managers***

**Needham & Company**

**Cowen and Company**

***Co-Managers***

**Craig-Hallum Capital Group**

**B. Riley & Co.**

**The date of this prospectus supplement is August \_\_\_\_\_, 2016**

Table of Contents

**TABLE OF CONTENTS**

	<b>Page</b>
<b>Prospectus Supplement</b>	
<u>ABOUT THIS PROSPECTUS SUPPLEMENT</u>	S-1
<u>FORWARD-LOOKING STATEMENTS</u>	S-2
<u>SUMMARY</u>	S-4
<u>RISK FACTORS</u>	S-9
<u>USE OF PROCEEDS</u>	S-23
<u>DILUTION</u>	S-23
<u>UNDERWRITING</u>	S-25
<u>LEGAL MATTERS</u>	S-30
<u>EXPERTS</u>	S-30
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	S-30
<u>INCORPORATION OF CERTAIN INFORMATION BY REFERENCE</u>	S-31
<b>Prospectus</b>	
<u>ABOUT THE PROSPECTUS</u>	
<u>THE COMPANY</u>	1
<u>RATIO OF EARNINGS TO FIXED CHARGES</u>	3
<u>RISK FACTORS</u>	3
<u>FORWARD-LOOKING STATEMENTS</u>	4
<u>USE OF PROCEEDS</u>	5
<u>DESCRIPTION OF CAPITAL STOCK</u>	5
<u>DESCRIPTION OF WARRANTS</u>	7
<u>DESCRIPTION OF DEBT SECURITIES</u>	8
<u>PLAN OF DISTRIBUTION</u>	12
<u>LEGAL MATTERS</u>	13
<u>EXPERTS</u>	13
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	13
<u>INCORPORATION OF CERTAIN INFORMATION BY REFERENCE</u>	14

Table of Contents

**ABOUT THIS PROSPECTUS SUPPLEMENT**

This document is in two parts. The first part is the prospectus supplement, which describes the specific terms of this offering. The second part is the accompanying base prospectus, which gives more general information, some of which may not apply to this offering. Generally, when we refer to the prospectus, we are referring to both parts combined. If information in the prospectus supplement conflicts with information in the accompanying base prospectus, you should rely on the information in this prospectus supplement.

Any statement made in this prospectus or in a document incorporated or deemed to be incorporated by reference into this prospectus will be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus supplement or in any other subsequently filed document that is also incorporated by reference into this prospectus modifies or supersedes that statement. Any statements so modified or superseded will be deemed not to constitute a part of this prospectus except as so modified or superseded. This prospectus does not contain all of the information included in the registration statement. For a more complete understanding of the offering of the securities, you should refer to the registration statement, including its exhibits. The registration statement containing this prospectus, including the exhibits to the registration statement, provides additional information about us and the securities offered under this prospectus. The registration statement, including the exhibits, can be read on the Securities and Exchange Commission's website or at the Securities and Exchange Commission's offices. Before you invest in the securities offered pursuant to this prospectus, you should carefully read this prospectus and the information contained in the documents we refer to under the headings "Where You Can Find More Information" and "Incorporation of Certain Information by Reference."

**You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with additional or different information. The prospectus may be used only for the purposes for which it has been published. If you receive any other information, you should not rely on it. You should assume that the information contained in this prospectus is accurate only as of the date on the front cover. Our business, financial condition, results of operations or prospects may have changed since that date. You should not rely on or assume the accuracy of any representation or warranty in any agreement that we have filed as an exhibit to the registration statement of which this prospectus is a part or that we may otherwise publicly file in the future because any such representation or warranty may be subject to exceptions and qualifications contained in separate disclosure schedules, may represent the parties' risk allocation in the particular transaction, may be qualified by materiality standards that differ from what may be viewed as material for securities law purposes or may no longer continue to be true as of any given date. No offer of these securities is being made in any jurisdiction where such offer or sale is prohibited.**

*Unless we otherwise specify, when used in this prospectus supplement, the terms "Digimarc," "the Company," "we," "our" and "us" refer to Digimarc Corporation and its subsidiaries, except that when such terms are used in this prospectus supplement in reference to the common shares, they refer specifically to Digimarc Corporation.*

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This prospectus and documents incorporated herein by reference include forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, or the Exchange Act, and Section 27A of the Securities Act of 1933, or the Securities Act. Words such as may, 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. Forward-looking statements include, but are not limited to, statements relating to:

concentration of revenue with few customers comprising a large majority of the revenue;

revenue trends and expectations;

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;

our ability to improve margins;

our ability to implement our technology and services, including the success of Digimarc Discover and Digimarc Barcode;

our anticipated expenses, costs, margins, provision for income taxes and investment activities in the foreseeable future;

our anticipated revenue to be generated from current contracts and as a result of new programs;

the variability of contracted arrangements;

our profitability in future periods;

business opportunities that could require that we seek additional financing;

the size and growth of our markets;

the existence of international growth opportunities and our future investment in such opportunities;

the sources of our future revenue;

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;

capital market conditions, 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;

increased competition in our markets;

our ability to hire and retain key personnel;

our use of cash, cash equivalents and marketable securities in upcoming quarters;

anticipated levels of backlog in future periods;

our plans and intentions with respect to our joint ventures; and

the protection, development and monetization of our intellectual property portfolio.

These forward-looking statements, or other statements made by us, are made based on our expectations and beliefs concerning future events affecting us, and are subject to uncertainties and factors that are difficult to predict and, in many instances, are beyond our control. We believe that the risk factors identified in Part I,

**Table of Contents**

Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2015 filed on February 25, 2016, or our 2015 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. As a result, investors are cautioned not to place undue reliance on 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 prospectus. 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 prospectus.

**Table of Contents**

**SUMMARY**

*This summary highlights information included or incorporated by reference in this prospectus supplement. It does not contain all of the information that may be important to you. You should read carefully the entire prospectus supplement, the accompanying prospectus, the documents incorporated by reference and the other documents to which we refer herein for a more complete understanding of this offering.*

**The Company**

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

Our media identification and discovery innovations enable our business partners, several of whom are discussed below, to create numerous applications across a wide range of media content, including solutions that:

Improve the speed of retail checkout;

Provide simple and intuitive mobile customer engagement experiences in stores;

Quickly and reliably identify and effectively manage music, movies, television programming, digital images, e-books, documents and other printed materials, especially in light of non-linear distribution over the Internet;

Deter counterfeiting of money, media and goods, and piracy of e-books, movies and music;

Support new digital media distribution models and methods to monetize media content;

Leverage the power of ubiquitous computing to instantly link consumers to a wealth of information and/or interactive experiences related to the media and objects they encounter each day;

Provide consumers with more choice and access to media content when, where and how they want it;



## Edgar Filing: Digimarc CORP - Form 424B5

Enhance imagery and video by associating metadata or authenticating media content for government and commercial uses; and

Better secure identity documents to enhance national security and combat identity theft and fraud.

The Intuitive Computing Platform has a proprietary foundation in a signal processing innovation known as digital watermarking, which allows imperceptible digital information to be embedded in all forms of digitally designed, produced or distributed media content and many physical objects, including photographs, movies, music, television, personal identification documents, financial instruments, industrial parts and product packages. We refer to the embedded information as the Digimarc Barcode. This digital information can be detected and read by a wide range of computers, smartphones, tablets and other digital devices.

Our inventions allow our business partners and customers to provide persistent digital identities for media content that is digitally processed at some point during its lifecycle. The technology can be applied to printed

## **Table of Contents**

materials, video, audio, and images to supply a wide range of patented consumer engagement, media management and security solutions across multiple consumer and government industry sectors. Over the years our enabling software and business processes, and associated intellectual property portfolio have grown to encompass many related technologies.

We provide solutions directly and through our business partners. Our inventions provide a powerful element of document security, giving rise to a long-term relationship with a consortium of central banks, or the Central Banks, and many leading companies in the information technology industry. We and our business partners have successfully propagated the use of our technology in music, movies, television broadcasts, digital images, e-books and printed materials. Digimarc Barcodes have been used in these applications to improve media rights and asset management, reduce piracy and counterfeiting losses, improve marketing programs, permit more efficient and effective distribution of valuable media content and enhance consumer entertainment and commercial experiences.

Digimarc Barcodes are embedded into all forms of media and are imperceptible to human senses, but quickly detected by computers, networks or other digital devices like smartphones and tablets. Unlike traditional barcodes and tags, our solution does not require publishers to give up valuable visual space in magazines and newspapers; nor does it impact the overall layout or aesthetics of the publication. Digimarc Barcodes are imperceptible to people and do all that visible barcodes do, but performs better. Our Digimarc Discover platform delivers a range of rich media experiences to its readers on their smartphones or tablets across multiple media including print, audio, video and packaging. Unique to the Digimarc Discover platform is its seamless multi-model use of various content identification technologies as needed, including Digimarc Barcode when present.

We introduced Digimarc Barcodes for use in consumer product packaging in 2014. These Digimarc Barcodes can contain the same information found in traditional universal product codes, or UPC. The UPC information is invisibly repeated multiple times over the entire package surface. We partnered with Datalogic, a global leader in Automatic Data Capture and Industrial Automation markets and producer of barcode readers, in introducing the Digimarc Barcode to the consumer product packaging market. The first retail scanner enabled was Datalogic's Magellan<sup>TM</sup> 9800i multi-plane imaging scanner. Since then additional scanner vendors and other channel partners have announced support for the platform. Digimarc Barcodes can also connect mobile-enabled consumers directly from packaging to engaging mobile experiences such as additional product information, special offers, recommendations, reviews, social networks and more.

Our intellectual property portfolio of patents contains many innovations in digital watermarking, pattern recognition (sometimes referred to as fingerprinting), digital rights management 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 1,100 U.S. and foreign patents and pending patent applications as of June 30, 2016. We continue to develop and broaden our portfolio in the fields of media identification and management technology and related applications and systems. We devote significant resources to developing and protecting our inventions and continuously seek to identify and evaluate potential licensees for our patents. The patents in our portfolio have a life of approximately 20 years from the effective filing date, and up to 17 years after the patent has been granted.

The market for patent licensing has become more challenging in recent years. As a result, we have shifted our focus from direct monetization via enforcement and licensing to:

facilitating progress toward the realization of our vision to enrich everyday living via pervasive, intuitive computing;

encouraging large scale adoption of our technologies by industry leaders;

S-5

**Table of Contents**

improving our financial performance by enhancing our competitive differentiation;

increasing the scale and rate of growth of our products and services business; and

laying a foundation for continuing innovation.

Digimarc was incorporated in Delaware in 2008 and became an Oregon corporation in 2010. Our principal offices are located at 9405 SW Gemini Drive, Beaverton, Oregon 97008; our telephone number is (503) 469-4800. Our website address is <http://www.digimarc.com>. Information on our website or available by hyperlink from our website does not constitute part of this prospectus.

**Table of Contents**

**The Offering**

Common stock offered by us	shares
Common stock to be outstanding after this offering	shares (or shares if the option to purchase additional shares for the purpose of covering over-allotments made in connection with the offering, if any, is exercised in full)
Option to purchase additional securities	We have granted the underwriters an option to purchase up to additional shares of our common stock for the purpose of covering over-allotments made in connection with the offering, if any. This option is exercisable, in whole or in part, for a period of 30 days from the date of this prospectus supplement.
Use of Proceeds	We intend to use the net proceeds for general working capital purposes as well as to accelerate the Company's growth initiatives. Please read Use of Proceeds.
Nasdaq Symbol	DMRC
Risk Factors	An investment in our common shares involves risks. You should carefully consider each of the factors described or referred to under Risk Factors beginning on page S-9 of this prospectus supplement, page 3 of the accompanying prospectus and in the documents incorporated by reference into this prospectus supplement and accompanying prospectus before you make an investment in our common stock.

The number of shares of our common stock to be outstanding after this offering is based on 9.1 million shares of common stock outstanding as of June 30, 2016 and excludes:

0.5 million shares of common stock issuable upon exercise of outstanding options as of June 30, 2016 at a weighted average exercise price of \$18.29 per share, of which 0.5 million were exercisable at June 30, 2016; and

1.3 million shares of common stock reserved for future issuance under our equity plans.  
Unless otherwise indicated, all information in this prospectus supplement assumes:

Edgar Filing: Digimarc CORP - Form 424B5

no exercise of the underwriters' option to purchase additional shares of our common stock for the purpose of covering overallotments made in connection with the offering, if any; and

no exercise of outstanding options to purchase shares of common stock.

S-7

**Table of Contents****SELECTED FINANCIAL DATA**

The following tables set forth our selected financial information as of and for each of the years in the five-year period ended December 31, 2015, which has been derived from audited financial statements as of December 31, 2015, 2014, 2013, 2012 and 2011 and for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, and our selected financial information as of and for the six month period ended June 30, 2016 and June 30, 2015, which has been derived from our unaudited financial statements as of June 30, 2016 and June 30, 2015 and for the six month periods ended June 30, 2016 and June 30, 2015.

The selected financial data set forth below should be read in conjunction with the consolidated financial statements and the notes to the consolidated financial statements and Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included in our Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q for the periods presented.

**Statement of Operations Data**

	<b>Six Months Ended</b>		<b>2015</b>	<b>Year Ended December 31,</b>			
	<b>June 30</b>	<b>2015</b>		<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Revenue	\$ 11,037	\$ 11,787	\$ 22,189	\$ 25,658	\$ 34,964	\$ 44,375	\$ 36,039
Gross profit percentage	61%	59%	60%	67%	77%	85%	81%
Operating income (loss)	\$ (10,784)	\$ (8,219)	\$ (17,977)	\$ (15,223)	\$ (2,412)	\$ 14,594	\$ 6,389
Net income (loss)	\$ (10,718)	\$ (8,162)	\$ (17,934)	\$ (15,820)	\$ (507)	\$ 8,272	\$ 5,656
Earnings (loss) per common share:							
Earnings (loss) per common share basic	\$ (1.25)	\$ (1.02)	\$ (2.19)	\$ (2.22)	\$ (0.10)	\$ 1.16	\$ 0.84
Earnings (loss) per common share diluted	\$ (1.25)	\$ (1.02)	\$ (2.19)	\$ (2.22)	\$ (0.10)	\$ 1.12	\$ 0.76
Weighted average common shares outstanding basic (in thousands)	8,560	7,995	8,198	7,187	6,866	6,757	6,741
Weighted average common shares outstanding diluted (in thousands)	8,560	7,995	8,198	7,187	6,866	6,989	7,430
Cash dividends declared per common share	\$	\$	\$	\$ 0.22	\$ 0.44	\$ 0.33	\$

**Balance Sheet Data**

	<b>As of June 30</b>		<b>2015</b>	<b>As of December 31,</b>			
	<b>2016</b>	<b>2015</b>		<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Cash, cash equivalents and short-term marketable securities	\$ 31,935	\$ 34,046	\$ 36,187	\$ 38,323	\$ 29,662	\$ 32,269	\$ 25,663
Long-term marketable securities	\$	\$	\$ 2,999	\$ 749	\$ 5,302	\$ 6,787	\$ 7,715

Edgar Filing: Digimarc CORP - Form 424B5

Total assets	\$ 46,886	\$ 50,573	\$ 56,364	\$ 57,416	\$ 57,197	\$ 57,331	\$ 45,793
Long-term liabilities	\$ 511	\$ 219	\$ 226	\$ 203	\$ 496	\$ 673	\$ 464
Redeemable preferred stock	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50	\$ 50

S-8



---

**Table of Contents**

**RISK FACTORS**

An investment in our securities involves a high degree of risk. The following risk factors are those risks of which we are aware and that we consider to be material to our business. If any of the following risks and uncertainties develops into actual events, our business, financial condition or results of operations and cash flows could be materially adversely affected. In that case, the trading price of our common stock could decline. Additionally, we cannot be certain or give any assurance that any actions taken to reduce known risks and uncertainties will be effective. Before investing in our common stock, you should carefully consider the risks described below, together with all of the other information contained in this prospectus supplement and the accompanying prospectus and incorporated by reference herein and therein, including from our 2015 Annual Report, subsequent Quarterly Report on Form 10-Q and Periodic Reports on Form 8-K.

**RISKS RELATED TO OUR BUSINESS**

***(1) As a purveyor of disruptive technology, if our channel partners and potential customers defer or delay adopting and implementing the technology, or if competitors or other market participants successfully engage in campaigns to discredit our technology, our revenues will be deferred and delayed. In addition, there are new and expanded components of our revenue engine that will need to be tested and proven.***

While the Company's legacy business remains strong, our primary engines of growth Digimarc Discover<sup>®</sup> and Digimarc Barcode are subject to the market forces and adoption curves common to other disruptive technologies. The market is in early stages of development. The revenue model anticipates annual subscriptions are the primary source of income. If adoption takes longer than anticipated, operating losses will continue.

We expect competing technologies to compete vigorously in the marketplace, and to fight to preserve their market share. While we believe that our technology can do what theirs can do only better, more cost-effective and faster to the extent they succeed in defending their position, our ability to achieve profitable operations will be impeded.

With respect to our Digimarc Discover and Digimarc Barcode growth and prospects, our three major avenues for revenue generation include direct sales, web sales, and channel partners. Our growing direct sales force is relatively new, with an average tenure of less than one year with the Company. The redesign of our website to facilitate web-based sales is evolving. Most of our channel partners are new. Thus, the engine of growth for revenues is new and unproven. We are executing strategies intended to make each of these means of revenue generation effective. We face many obvious challenges.

***(2) Our future growth will depend to a material extent on the successful advocacy of our technology by channel partners to their members and customers, and implementation of our technology in solutions propagated by channel partners and provided by third parties.***

Our business has long relied on the success of business partners. Our continuing success is largely dependent on a new generation of business partners involved in Digimarc Discover and Digimarc Barcode. In recent months, we have entered into agreements with numerous channel partners to propagate and support Digimarc Barcode and Digimarc Discover, including brand deployment and pre-media service providers Southern Graphics Systems, LLC and Schawk Inc., who will offer Digimarc Barcode services to national and store brand owners and consumer products suppliers; HP, Inc., who can perform large scale serialization of unique identifiers; Perrigo Company, the world's largest manufacturer of over-the-counter pharmaceutical products for the store brand market, to improve point-of-sale efficiency for retailers and provide consumers easier access to product information from enabled smart labels; and platforms which provide unprecedented consumer engagement via smartphones, such as Shazam Entertainment

Edgar Filing: Digimarc CORP - Form 424B5

Limited and Powa Technologies Group PLC. Digimarc and GS1 US, the U.S. operation of the organization that maintains the global standards for barcodes, announced a broad collaboration to help the industries served by GS1 US to make effective use of

S-9

**Table of Contents**

Digimarc Barcode. GS1 US will educate, train and provide access to services to their 300,000 member businesses. Among other things, Digimarc and GS1 US intend to improve product identification for retailers and consumers with brand-certified, accurate product information via Digimarc Barcodes.

If our channel partners are not successful in advocating and deploying our technology, we may not be able to achieve and sustain profitable operations. In addition, negotiating and performing under these arrangements involves significant time and expense, and we do not assure you that the anticipated benefits of these arrangements will ever materialize or that the products or technologies involved will ever be commercialized or that, as a result, we will not write down a portion or all of our investment. If other business partners who include our technology in their products or otherwise license our intellectual property for use in their products cease to do so, or we fail to obtain other partners who will incorporate, embed, integrate or bundle our technology, or these partners are unsuccessful in their efforts, expanding deployment of our technology and increasing revenues will be adversely affected. Consequently, our ability to increase revenue could be adversely affected and we may suffer other adverse effects to our business. In addition, if customers encounter difficulties in implementing our technology, or if our technology does not perform according to market expectations, our future sales would suffer as customers seek and employ alternative technologies.

***(3) If leading companies in the retail and consumer products industries or standard-setting bodies or institutions downplay, minimize or reject the use of our technology, deployment may be slowed and we may be unable to achieve or sustain profitable operations.***

Many of our business endeavors, including the Digimarc Barcode, can be impeded or frustrated by larger, more influential companies or by standard-setting bodies or institutions downplaying, minimizing or rejecting the value or use of our technology. A negative position by such companies, bodies or institutions, could result in obstacles for us that we would be incapable of overcoming and may block or impede the adoption of our technology. In addition, potential customers may delay or reject initiatives that relate to deployment of our technology. Such a development would make the achievement of our business objectives in this market difficult or impossible.

***(4) We are subject to risks encountered by companies developing and relying upon new technologies, products and services to achieve and sustain profitable operations.***

Our business and prospects must be considered in light of the risks and uncertainties to which companies with new and rapidly evolving technology, products and services are exposed. These risks include the following:

we may be unable to develop sources of new revenue or sustainable growth in revenue because our current and anticipated technologies, products and services may be inadequate or may be unable to attract or retain customers;

intense competition and rapid technological change could adversely affect the market's acceptance of our existing and new products and services;

we may be unable to develop and maintain new technologies upon which our existing and new products and services are dependent which may cause our products and services to be less sustainable and competitive or which could make it harder for us to expand our revenue and business; and

our licensees may not be able to successfully enter new markets or grow their businesses, limiting royalties paid to us.

Some key technologies and solutions of our patent or technology licensees are in the development stage. Consequently, products incorporating our technology and solutions are undergoing technological change and are in the early stages of introduction in the marketplace. Delays in the adoption of these products or adverse competitive developments may result in delays in the development of new revenue sources or the growth in our existing revenue streams. We may be required to incur unanticipated expenditures if product changes or

S-10

**Table of Contents**

improvements are required. Moreover, new industry standards might redefine the products that we or our licensees are able to sell, especially if these products are only in the prototype stage of development. If product changes or improvements are required, success in marketing these products by us or our licensees and achieving or sustaining profitability from these products could be delayed or halted.

***(5) A significant portion of our current and potential future revenue is subject to commercial and government contracts and development of new markets that may involve unpredictable delays and other unexpected changes. Such volatility and uncertainty might limit our actual revenue in any given quarter or year.***

We derive substantial portions of our revenue from contracts tied to development schedules or development of new markets, which could shift for months, quarters or years as the needs of our customers and the markets in which they participate change. Government agencies and commercial customers also face budget pressures that introduce added uncertainty. Any shift in development schedules, the markets in which we or our licensees participate, or customer procurement processes, which are outside our control and may not be predictable, could result in delays in bookings forecasted for any particular period, could affect the predictability of our quarterly and annual results, and might limit our actual revenue in any given quarter or year, resulting in reduced and less predictable revenue and adversely affecting profitability.

We are expanding into new markets, which involve inherent risk and unpredictability. In recent years, particularly with the proliferation of smartphones and increased consumer demands for product information, we have investigated other technologies that may provide attractive future opportunities, for example, in the packaging and publishing markets. These generally include technologies that leverage our strength in signal processing and support our vision for intuitive, pervasive computing. As we seek to expand outside our areas of historical expertise, we lack the history and insight that benefited us in the watermarking field. We also lack the size and scale typical of contractors providing products and services to the federal government. Although we have extensive experience in the commercial application of digital watermarking, we are investing in but may not be as well-positioned in these other disciplines. Accordingly, it may be difficult for us to replicate our watermarking success in other technologies we might pursue.

***(6) A small number of customers account for a substantial portion of our revenue, and the loss of any large contract could materially disrupt our business.***

Historically, we have derived a significant portion of our revenue from a limited number of customers. Five customers represented approximately 71% of our revenue for the year ended December 31, 2015 and 74% of our revenue for the six months ended June 30, 2016. In our legacy business, most revenue came from long-term contracts generally having terms of at least three to five years, with some licenses for the life of the associated patents, which could be up to 20 years. The agreements with our licensees generally provide for minimum and/or variable payment obligations. The minimum license fee payment obligations under our license agreement with Intellectual Ventures, or IV, ended in 2013 and all payment obligations under our license agreements with The Nielsen Company (US) LLC, or Nielsen, and Verance Corporation ended in 2014. Some contracts we enter into contain termination for convenience provisions. If we were to lose such a contract for any reason, or if revenue from variable payment obligations do not replace revenue under the existing fixed payment obligations, our financial results could be adversely affected.

We expect to continue to depend upon a small number of customers for a significant portion of our revenue for the foreseeable future. The loss of, or decline in, orders or backlog from one or more major customers could reduce our revenue and have a material adverse effect on our financial results.



**Table of Contents**

***(7) If third parties who manage certain aspects of our technology do not adequately perform their functions, we might experience disruptions in our technology.***

We currently rely on third parties for the implementation and management of certain aspects of our watermarking technology. In particular, we rely on third parties to print the packaging labels in which our watermark is embedded. Our reliance on such third parties can expose us to risks such as mislabeling products, which could disrupt our customers' operations and negatively impact our business and reputation, and consequently, our revenues.

***(8) Although profitable in prior years, we were not profitable in 2013, 2014, 2015 or the first six months of 2016 and may not be able to return to or sustain profitability in the future, particularly if we were to lose large contracts or fail in our new market development initiatives. Sustained lack of profitability could cause us to incur asset impairment charges for long-lived assets and/or record valuation allowance against our deferred tax assets.***

We incurred net losses in 2013, 2014, 2015 and the first six months of 2016 largely due to increased levels of investments in our business to support product development and sales growth initiatives, concurrent with the scheduled completion of the quarterly license fee payments from IV in 2013 and Nielsen in 2014.

Returning to and maintaining profitability in the future will depend upon a variety of factors, including our ability to maintain and obtain more significant partnerships like we have with the Central Banks and acquiring new customers for Digimarc Discover, Digimarc Barcode and Guardian. Profitability will also depend on our efficiency in executing our business strategy and capitalizing on new opportunities. Various adverse developments, including the loss of large contracts or cost overruns on our existing contracts, could adversely affect our revenue, margins and profitability.

If we continue to incur operating losses, an impairment to the carrying value of our long-lived assets, including goodwill, acquired intangible assets, patent assets and property and equipment could result. We test for impairment of our long-lived assets when a triggering event occurs that would indicate that the carrying value may not be recoverable. Our methodology for assessing impairment may require management to make judgments and assumptions regarding future cash flows. Our projections of future cash flows are largely based on historical experience, and these projections may or may not be achieved. Changes to these financial projections used in our impairment analysis could lead to an impairment of all or a portion of our long-lived assets. Any such impairment charge could adversely affect our results of operations and our stock price. We evaluated our long-lived assets for impairment as of June 30, 2016 and concluded there was no impairment. We cannot guarantee, however, that our long-lived assets will not become impaired in the future.

We record valuation allowances on our deferred tax assets if, based on available evidence, it is more-likely-than-not that all or some portion of the assets will not be realized. The determination of whether our deferred tax assets are realizable requires management to identify and weigh all available positive and negative evidence. Management considers recent financial performance, projected future taxable income, scheduled reversals of deferred tax liabilities, tax planning strategies and other evidence in assessing the realizability of our deferred tax assets. Adjustments to our deferred tax assets could adversely affect our results of operations and our stock price. We recorded a \$6.8 million non-cash income tax charge during the fourth quarter of 2014 to record a full valuation allowance against our deferred tax assets largely due to the cumulative loss we had incurred over the previous three years, which is considered a significant piece of negative evidence in assessing the realizability of deferred tax assets. We will not record tax benefits on any future losses until it is determined that those tax benefits will be realized. As of June 30, 2016 we determined a full valuation allowance was still appropriate.

***(9) We may be adversely affected by variability of contracted arrangements.***

We periodically agree to modify the terms of contractual arrangements with our customers, partners and licensees in response to changes in circumstances underlying the original contractual arrangements, and it is

S-12



**Table of Contents**

likely that we will do so in the future. As a result of this practice, the terms of our contractual arrangements with our customers, partners and licensees may vary over time and, depending on the particular modification, could have a material adverse effect on our financial position, results of operations or cash flows.

Some of our customers and licensees report royalties to us based on their revenue and their interpretation and allocation of contracted royalty obligations. It is possible that we may not agree with the judgments of our customers on such matters, and such disagreement may lead to potential disputes and reduced revenue to us. These disputes could result in a distraction to our management and may not result in increased revenues to us but may nevertheless result in friction between us and our customers, and potentially the loss of customers, which may ultimately be harmful to our business.

***(10) The market for our products is highly competitive, and alternative technologies or larger companies that compete with us may be more successful than us in gaining market share, which would decrease our revenue and profits.***

The markets in which we compete for business are intensely competitive and rapidly evolving. We expect competition to continue from both existing competitors and new market entrants. We face competition from other companies and from alternative technologies, including some of our customers and licensees. We also may face competition from unexpected sources.

Alternative technologies that may directly or indirectly compete with particular applications of our watermarking technologies include:

Traditional anti-counterfeiting technologies a number of solutions used by many government agencies (that compete for budgetary outlays) designed to deter counterfeiting, including optically sensitive ink, magnetic threads and other materials used in the printing of currencies;

Image recognition one or several pre-specified or learned objects or object classes that can be recognized, usually together with their two-dimensional positions in the image or three-dimensional poses in the scene, such as Amazon Firefly or Qualcomm Vuforia, which provides a stand-alone program illustration of this function;

Radio frequency tags embedding a chip that emits a signal when in close proximity with a receiver, used in some photo identification credentials, labels and tags;

Internet technologies numerous existing and potential Internet access and search methods are competitive with Digimarc Mobile systems and the searching capabilities of Guardian;

Digital fingerprints and signatures a metric, or metrics, computed solely from a source image or audio or video track, that can be used to identify an image or track, or authenticate the image or track; and

Barcodes or QR codes data-carrying codes, typically visible in nature (but may be invisible if printed in ultraviolet- or infrared-responsive inks).

In the competitive environments in which we operate, product generation, development and marketing processes relating to technology are uncertain and complex, and require accurate prediction of demand as well as successful management of various risks inherent in technology development. In light of these uncertainties, it is possible that our failure to successfully accommodate future changes in technologies related to our technology could have a long-term negative effect on our growth and results of operations.

New developments are expected to continue, and discoveries by others, including current and potential competitors, possibly could render our services and products noncompetitive. Moreover, because of rapid technological changes, we may be required to expend greater amounts of time and money than anticipated to develop new products and services, which in turn may require greater revenue streams from those products and services to cover developmental costs. Many of the companies that compete with us for some of our business, as well as other companies with whom we may compete in the future, are larger and may have stronger brand

**Table of Contents**

recognition and greater technical, financial, marketing and political resources than we do. These attributes could enable these companies to have more success in the market than we have, either by providing better products or better pricing than we can provide. We may be unable to compete successfully against current or future participants in our market or against alternative technologies, and the competitive pressures we face could decrease our revenue and profits in the future.

*(11) An increase in our operations outside of the U.S. subjects us to risks additional to those to which we are exposed in our domestic operations.*

We believe that revenue from sales of products and services to commercial, governmental and other customers outside the U.S. could represent a growing percentage of our total revenue in the future. Digimarc Discover is not bounded geographically, and we believe Digimarc Barcode will see global deployment. As such, certain contracts will be made and performed, in whole or in part, outside of the U.S. Similarly, for Guardian, we perform certain functions in various jurisdictions outside of the U.S. International operations are subject to a number of risks that can adversely affect our sales of products and services to customers outside of the U.S., or expose us to additional expense or liabilities, including the following:

difficulties and costs of staffing, developing and managing foreign operations as a result of distance, language and cultural differences;

the effect of laws governing employee and contractor relationships, and the existence of workers' councils and labor unions in some jurisdictions;

changes in foreign government regulations and security requirements;

export license requirements, tariffs and taxes;

trade barriers;