

DIGIMARC CORP
Form 10-Q
August 03, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

(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, 2007

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)

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

Title of Each Class
Common Stock,
\$0.001 Par Value Per Share

Name of Each Exchange on Which Registered
The Nasdaq Stock Market

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

NONE

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

Accelerated filer

Non-accelerated filer

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 July 31, 2007, there were 21,608,076 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 share data)
(UNAUDITED)

	June 30, 2007	December 31, 2006(1)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 17,581	\$ 23,135
Restricted cash		378
Short-term investments	1,715	
Trade accounts receivable, net	16,358	14,403
Inventory, net	7,030	6,600
Other current assets	2,605	2,273
Total current assets	45,289	46,789
Restricted cash	9,560	9,560
Property and equipment, net	66,465	61,898
Intangibles, net	14,391	15,374
Other assets, net	956	1,010
Total assets	\$ 136,661	\$ 134,631
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 5,850	\$ 5,708
Accrued payroll and related costs	2,007	3,894
Deferred revenue	6,078	5,050
Other current liabilities	1,666	2,258
Total current liabilities	15,601	16,910
Long-term deferred revenue, net of current portion	6,968	5,345
Other long-term liabilities	1,090	885
Total liabilities	23,659	23,140
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock (21,627,455 and 21,191,918 shares issued and outstanding at June 30, 2007 and December 31, 2006, respectively)	22	22
Additional paid-in capital	213,955	211,072
Accumulated other comprehensive income	137	137
Accumulated deficit	(101,112)	(99,740)
Total stockholders' equity	113,002	111,491
Total liabilities and stockholders' equity	\$ 136,661	\$ 134,631

(1) Derived from the Company's December 31, 2006 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		Six Months Ended	
	June 30, 2007	2006	June 30, 2007	2006
Revenue:				
Service	\$ 22,538	\$ 20,519	\$ 43,837	\$ 42,809
Product and subscription	4,826	4,388	10,373	9,291
Total revenue	27,364	24,907	54,210	52,100
Cost of revenue:				
Service	15,089	15,002	29,804	32,101
Product and subscription	1,988	1,675	4,088	4,224
Total cost of revenue	17,077	16,677	33,892	36,325
Gross profit	10,287	8,230	20,318	15,775
Operating expenses:				
Sales and marketing	4,365	4,685	8,642	9,224
Research, development and engineering	1,883	2,994	3,925	6,230
General and administrative	3,809	4,172	7,907	9,382
Amortization of intangibles	509	550	1,009	1,123
Intellectual property	476	481	975	912
Restructuring charges, net		547		547
Total operating expenses	11,042	13,429	22,458	27,418
Operating income (loss)	(755)	(5,199)	(2,140)	(11,643)
Other income (expense):				
Interest income	362	341	774	666
Interest expense	4	(28)	(15)	(44)
Other	36	(5)	25	43
Total other income, net	402	308	784	665
Income (loss) before provision for income taxes	(353)	(4,891)	(1,356)	(10,978)
(Provision) benefit for income taxes	(142)	22	(161)	(63)
Net income (loss)	\$ (495)	\$ (4,869)	\$ (1,517)	\$ (11,041)
Net income (loss) per share basic	\$ (0.02)	\$ (0.24)	\$ (0.07)	\$ (0.54)
Net income (loss) per share diluted	\$ (0.02)	\$ (0.24)	\$ (0.07)	\$ (0.54)
Weighted average shares outstanding basic	20,898	20,627	20,847	20,617
Weighted average shares outstanding diluted	20,898	20,627	20,847	20,617

See Notes to Unaudited Consolidated Financial Statements.

DIGIMARC CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
(In thousands, except share data)

	Common stock Shares	Amount	Additional paid-in capital	Deferred stock compensation	Accumulated other comprehensive income	Accumulated Deficit	Total stockholders equity
BALANCE AT DECEMBER 31, 2005	20,808,994	\$ 21	\$ 209,337	\$ (1,519)	\$ 137	\$ (88,000)	\$ 119,976
Initial adjustment to adopt SFAS 123R			(1,519)	1,519			
Exercise of stock options	44,584	1	201				202
Issuance of employee stock purchase plan shares	52,957		248				248
Issuance of restricted common stock	312,365						
Purchase and retirement of common stock	(26,982)		(208)				(208)
Stock-based compensation expense			3,013				3,013
Net loss						(11,740)	(11,740)
BALANCE AT DECEMBER 31, 2006	21,191,918	22	211,072		137	(99,740)	111,491
Initial adjustment to adopt FIN 48 (Note 10)						145	145
Exercise of stock options	97,399		588				588
Issuance of employee stock purchase plan shares	54,119		423				423
Issuance of restricted common stock	309,490						
Purchase and retirement of common stock	(25,471)		(140)				(140)
Stock-based compensation expense			2,012				2,012
Net loss						(1,517)	(1,517)
BALANCE AT JUNE 30, 2007	21,627,455	\$ 22	\$ 213,955	\$	\$ 137	\$ (101,112)	\$ 113,002

See Notes to Unaudited Consolidated Financial Statements.

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

	Six Months Ended	
	June 30,	June 30,
	2007	2006
Cash flows from operating activities:		
Net loss	\$ (1,517)	\$ (11,041)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,801	7,652
Stock-based compensation expense	2,012	1,576
Increase (decrease) in allowance for doubtful accounts	1	(164)
Other non-cash charges	(50)	(73)
Changes in operating assets and liabilities:		
Restricted cash	378	(4,204)
Trade accounts receivable, net	(1,996)	1,765
Inventory, net	(430)	1,102
Other current assets	(332)	232
Other assets, net	54	69
Accounts payable	142	155
Accrued payroll and related costs	(1,887)	(250)
Deferred revenue	2,651	985
Other liabilities	(116)	(321)
Net cash provided by (used in) operating activities	6,711	(2,517)
Cash flows from investing activities:		
Purchase of property and equipment, including capitalized labor costs, and intangibles	(11,109)	(3,437)
Sale or maturity of short-term investments	76,807	62,713
Purchase of short-term investments	(78,522)	(62,975)
Net cash provided by (used in) investing activities	(12,824)	(3,699)
Cash flows from financing activities:		
Issuance of common stock	1,011	264
Purchase of common stock	(140)	-
Principal payments under capital lease obligations	(312)	(314)
Net cash provided by (used in) financing activities	559	(50)
Net increase (decrease) in cash and cash equivalents	(5,554)	(6,266)
Cash and cash equivalents at beginning of period	23,135	23,964
Cash and cash equivalents at end of period	\$ 17,581	\$ 17,698
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 38	\$ 44
Cash paid for income taxes	\$ 323	\$ 111
Summary of non-cash investing and financing activities:		
Equipment acquired or exchanged under capital lease obligations	\$ 244	\$ 582

See Notes to Unaudited Consolidated Financial Statements.

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

1. The Company, Basis of Presentation

Description of Business

Digimarc Corporation (Digimarc or the Company) is a supplier of secure identity solutions and advanced technologies for use in media management. The Company s solutions enable governments and businesses around the world to deter counterfeiting and piracy, enhance traffic safety and national security, combat identity theft and fraud, facilitate the effectiveness of voter identification programs, improve the management of media content, and support new digital media distribution models that provide consumers with more choice and access to media content.

Principles of Consolidation

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

Interim Financial Statements

The accompanying 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 for the periods presented. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (the U.S.) have been condensed or omitted under the rules and regulations of the Securities and Exchange Commission (the SEC).

These consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006, which was filed with the SEC on March 8, 2007. 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.

Use of Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in th