Heritage Insurance Holdings, Inc.
Form 4
December 28, 2015

FORM 4

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Houvardas Trifon

(Last) (First) (Middle)

C/O HERITAGE INSURANCE HOLDINGS, INC., 2600 MCCORMICK DRIVE SUITE 300

(Street)

CLEARWATER, FL 33759

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
Heritage Insurance Holdings, Inc. [HRTG]

3. Date of Earliest Transaction (Month/Day/Year)
12/23/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director
_____ 10% Owner
_____ Officer (give title below)
_____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	12/23/2015		S		900	D	(1)	298,182	I	See Footnote (3)
Common Stock	12/23/2015		S		900	D	(2)	297,282	I	See Footnote (3)
Common Stock								38,250	D	

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Houvardas Trifon C/O HERITAGE INSURANCE HOLDINGS, INC. 2600 MCCORMICK DRIVE SUITE 300 CLEARWATER, FL 33759	X			

Signatures

/s/ Bruce Lucas, by Power of Attorney	12/28/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The transaction reported on this line represents a gift to Berkeley Preparatory School for value of $19773.00.

(2) The transaction reported on this line represents a gift to Holy Trinity Greek Orthodox Church for value of $19773.00.

(3) Shares of common stock reported on this line are held by K&M Insurance Investors, LLC, an entity controlled by Mr. Houvardas.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. -top:solid 0.75pt #000000;white-space:nowrap;">

$

8,972

$

(1,018

)

(11

)%

General and administrative (as %

of total revenue)

36

%

35

%

The decrease in general and administrative expenses was due primarily to:

- decreased stock compensation expense of $0.5 million; and
- decreased legal costs of $0.4 million.

Intellectual property

	Year Ended December 31, 2015	Year Ended December 31, 2014	Dollar Decrease	Percent Decrease
Intellectual property	$ 1,525	$ 1,793	$ (268)	(15)%
Intellectual property (as % of total revenue)	7 %	7 %		

The decrease in intellectual property expenses was due primarily to:

- decreased headcount and compensation-related expenses of $0.2 million; and
- decreased consulting fees of $0.2 million for a third party intellectual property marketing study performed in 2014; partially offset by
- increased write-off of abandoned patent costs of $0.2 million.

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Stock-based compensation

	Year Ended December 31, 2015	Year Ended December 31, 2014	Dollar Increase (Decrease)	Percent Increase (Decrease)
Cost of revenue	$ 740	$ 545	$ 195	36 %
Sales and marketing	775	674	101	15 %
Research, development and engineering	1,308	1,406	(98)	(7)%
General and administrative	1,978	2,454	(476)	(19)%
Intellectual property	276	324	(48)	(15)%
Total	$ 5,077	$ 5,403	$ (326)	(6)%

Stock-based compensation expense decreased as all outstanding stock options were fully vested by January 2015, which was partially offset by expense on new hire stock grants.

Other income, net

	Year Ended December 31, 2015	Year Ended December 31, 2014	Dollar Increase	Percent Increase
Other income, net	$ 109	$ 55	54	98 %
Other income, net (as % of total revenue)	*	*		

*Less than 1%

The increase in other income, net was primarily due to higher interest income as a result of higher cash and investment balances.

Provision for income taxes

For the year ended December 31, 2015, we recognized an income tax provision of $0.1 million on a pretax loss of $17.9 million, resulting in an effective tax rate of 0%. The valuation allowance against deferred tax assets as of December 31, 2015 was $15.4 million, an increase of $8.1 million from $7.3 million as of December 31, 2014.

For the year ended December 31, 2014, we recognized an income tax provision of $0.7 million on a pretax loss of $15.2 million, resulting in an effective tax rate of (4%). The income tax provision included a $6.8 million non-cash charge during the fourth quarter of 2014 to record a full valuation allowance against our deferred tax assets.

Liquidity and Capital Resources

	December 31, 2016	December 31, 2015
Working capital	$ 58,461	$ 37,610
Current ratio (1)	14.1:1	9.0:1
Cash, cash equivalents and short-term marketable securities	$ 56,134	$ 36,187
Long-term marketable securities	$ 4,392	$ 2,999
Total cash, cash equivalents and all marketable securities	$ 60,526	$ 39,186

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

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The $21.3 million increase in cash, cash equivalents and marketable securities at December 31, 2016 from December 31, 2015 resulted primarily from:

- proceeds from the sale of common stock in an underwritten public offering; and
- proceeds from stock option exercises; partially offset by
- cash used in operations;
- purchases of property and equipment and capitalized patent costs; and
- purchases of common stock related to the vesting of restricted stock.

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 federal agency notes, commercial paper, corporate notes, pre-refunded municipal bonds and U.S. treasuries. Our investment policy requires the portfolio to be invested to ensure that the greater of $3 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 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 million, whichever is greater, to be invested in any one industry category, (e.g., financial or energy industries), 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 below cost that is deemed to be other-than-temporary results in a reduction in carrying amount to fair value. 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 in the years ended December 31, 2016, 2015 and 2014.

Cash flows from operating activities

The components of operating cash flows were:

	Year Ended December 31, 2016	Year Ended December 31, 2015	Dollar Increase (Decrease)	Percent Increase (Decrease)
Net loss	$ (21,672)	$ (17,934)	$ (3,738)	(21)%
Non-cash items	8,010	7,503	507	7%
Changes in operating assets and liabilities	(202)	691	(893)	(129)%
Net cash used in operating activities	$ (13,864)	$ (9,740)	$ (4,124)	(42)%

	Year Ended December 31,	Year Ended December 31,	Dollar Increase	Percent Increase

	2015	2014	(Decrease)	(Decrease)
Net loss	$ (17,934)	$ (15,820)	$ (2,114)	(13)%
Non-cash items	7,503	9,779	(2,276)	(23)%
Changes in operating assets and liabilities	691	(692)	1,383	200 %
Net cash used in operating activities	$ (9,740)	$ (6,733)	$ (3,007)	(45)%

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Cash flows used in operating activities in 2016 compared to 2015 increased by $4.1 million, primarily as a result of a higher net loss and by changes in operating assets and liabilities, partially offset by higher non-cash items. The higher net loss was primarily due to higher operating expenses. The changes in operating assets and liabilities was primarily due to changes in other current assets, and deferred rent due to the terms of our amended lease agreement. The higher non-cash items was primarily due to higher stock-based compensation expense.

Cash flows used in operating activities in 2015 compared to 2014 increased by $3.0 million, primarily as the result of a higher net loss and lower non-cash items, partially offset by changes in operating assets and liabilities. The higher net loss was primarily due to lower revenues. The decrease in non-cash items reflects the impact of no non-cash charge for deferred income taxes in 2015. The changes in operating assets and liabilities was primarily due to changes in other current assets.

Cash flows from investing activities

Cash flows used in investing activities in 2016 compared to 2015 increased by $10.3 million from $5.2 million to $15.5 million, primarily as a result of higher net purchases of marketable securities from cash received in our underwritten public offering and higher capital expenditures for leasehold improvements.

Cash flows used in investing activities in 2015 compared to 2014 increased by $0.8 million from $4.4 million to $5.2 million, primarily as a result of higher net purchases of marketable securities, partially offset by lower purchases of property and equipment and capitalized patent costs.

Cash flows from financing activities

Cash flows provided by financing activities in 2016 compared to 2015 increased $25.9 million from $12.0 million to $37.8 million, primarily as a result of higher cash proceeds from the sale of common stock in our underwritten public offering.

Cash flows provided by financing activities in 2015 compared to 2014 decreased by $1.4 million from $13.4 million to $12.0 million, primarily as a result of lower cash proceeds from the sale of common stock, partially offset by no cash dividends paid in 2015.

Future cash expectations

In August 2016, we sold 1,233 shares of our common stock in an underwritten public offering, plus an additional 185 shares in full exercise of the underwriters’ option to purchase additional shares of common stock, at the price to the public of $30.00 per share. We received $39,953 of cash proceeds, net of discount of $2,447 and underwriter fees of $150, from the offering, and paid $253 in stock issuance costs for legal and accounting fees.

We believe that our current cash, cash equivalents, and short-term marketable securities balances will satisfy our projected working capital and capital expenditure requirements for at least the next 12 months. We have a $100 million shelf registration statement in place, of which $42,550 was allocated for sales of our common stock under our underwritten public offering in August 2016 and $30,000 was allocated for sales of our common stock under the Equity Distribution Agreement entered into in August 2014. The shelf registration statement expires in May 2017. We may 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.

Contractual Obligations

In July 2015, we entered into an amendment with the landlord of our corporate offices in Beaverton, Oregon to extend the lease term through March 2024 for rent payments totaling $5.5 million, payable in monthly installments.

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In February 2015, we entered into a new facilities lease agreement in San Mateo, California with a lease term through March 2020 for rent payments totaling $1.0 million, payable in monthly installments.

The following table presents our contractual obligations as of December 31, 2016:

	Maturities by Period				
	Total	Less than 1 year	1-3 years	3 - 5 years	More than 5 years
Total operating lease obligations	$6,350	$ 784	$2,015	$ 1,652	$ 1,899

We cannot make a reasonably reliable estimate of the period of potential cash settlement of our unrecognized tax benefits of $0.5 million and, therefore, have not included the unrecognized tax benefits in the table of contractual obligations as of December 31, 2016.

Off-Balance Sheet Arrangements

Other than the contractual obligations noted above, we do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

Forward-Looking Statements

This Annual Report on Form 10-K includes “forward-looking statements” within the meaning of Section 21E of the Securities Exchange Act of 1934 and Section 27A of the Securities Act of 1933. Words such as “may,” “plan,” “should,” “could,” “expect,” “anticipate,” “intend,” “believe,” “project,” “forecast,” “estimate,” “continue,” and variations of such terms 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”), 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:

- 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 and protection of our intellectual property, sales growth initiatives and development of new market opportunities;
- our ability to improve margins;
- anticipated expenses, costs, margins, provision for income taxes and investment activities in the foreseeable future;
- anticipated revenue to be generated from current contracts, renewals, and as a result of new programs;

- 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;

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- 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;
- our use of cash, cash equivalents and marketable securities in upcoming quarters;
- anticipated levels of backlog in future periods;
- the success of our products, including Digimarc Discover, Digimarc Barcode and Guardian;
- our ability to innovate and enhance our competitive differentiation;
- protection, development and monetization of our intellectual property portfolio;
- our plans and intentions with respect to our joint ventures; and
- other risks detailed in our filings with the Securities and Exchange Commission, including the risk factors set forth in Item 1A. “Risk Factors.”

We believe that the factors specified above and the risk factors contained in Item 1A, “Risk Factors,” 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 Annual Report. 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 Annual Report on Form 10-K.

ITEM 7A: QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our exposure to market risk for changes in interest rates relates primarily to the increase or decrease in the amount of interest income we can earn on our investment portfolio. We do not use derivative financial instruments in our investment portfolio. We attempt to ensure the safety and preservation of our invested principal funds by limiting default risk, market risk and investment risk. We mitigate default risk by investing in low-risk securities. At December 31, 2016, we had an investment portfolio of federal agency notes, commercial paper, corporate notes, pre-refunded municipal bonds, U.S. treasuries and money market securities, including those classified as cash equivalents, and short- and long-term marketable securities, totaling $59.8 million. The original maturities of our investment portfolio range from 12 to 520 plus days with an average interest rate of 0.96%. If market interest rates were to decrease immediately and uniformly by 10% from levels as of December 31, 2016, the decline of the fair market value of the fixed income portfolio would not be material.

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Our Consolidated Financial Statements and the accompanying Notes that are filed as part of this Annual Report are listed under Part III, Item 15, Exhibits and Financial Statement Schedules and are set forth beginning on page F-1 immediately following the signature page of this Form 10-K.

ITEM 9: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

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ITEM 9A: CONTROLS AND PROCEDURES
Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, have carried out an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the period covered by this Form 10-K.

Based on our 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 Form 10-K, were effective in ensuring that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934 is (i) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP.

Any control system, no matter how well conceived and operated, and because of inherent limitations, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Management is committed to continue monitoring our internal controls over financial reporting and will modify or implement additional controls and procedures that may be required to ensure the ongoing integrity of our consolidated financial statements.

With the participation of our Chief Executive Officer and Chief Financial Officer, management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, (COSO). Based on this evaluation, management has concluded that internal control over financial reporting was effective as of the end of the period covered by this Form 10-K based on those criteria.

There was no change in our internal control over financial reporting that occurred during the quarter ended December 31, 2016, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our independent auditors have issued an audit report on the effectiveness of our internal control over financial reporting as of December 31, 2016, which is included herein.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Digimarc Corporation:

We have audited Digimarc Corporation's (the "Company") internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Digimarc Corporation and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated February 23, 2017 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Portland, Oregon

February 23, 2017

ITEM 9B: OTHER INFORMATION
None

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PART III

Certain information required by Part III of this Annual Report on Form 10-K is incorporated herein by reference to the Proxy Statement for our 2016 annual meeting of shareholders, which we intend to file no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 10: DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE
Code of Ethics

We have adopted a Code of Business Conduct that applies to our principal executive officer, principal financial officer and controller, as well as a Code of Ethics for Financial Professionals that applies to our principal financial officer and controller. We have made these codes available in the Corporate Governance section of our website at www.digimarc.com/about/company/corporate-governance. If we waive, or implicitly waive, any material provision of the codes, or substantively amend the codes, we will disclose that fact on our website within four business days.

The other information required by this item is incorporated herein by reference to the information in the Proxy Statement, which we intend to file with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K under the captions “Election of Directors,” “Management,” “Report of the Governance and Nominating Committee of the Board of Directors—Audit Committee,” and “Other Matters—Section 16(a) Beneficial Ownership Reporting Compliance.”

ITEM 11: EXECUTIVE COMPENSATION
The information required by this item is incorporated herein by reference to the information in the Proxy Statement, which we intend to file with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, under the captions “Director Compensation,” “Executive Compensation,” “Compensation Committee Interlocks and Insider Participation” and “Compensation Committee Report.”

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS
The information required by this item is incorporated herein by reference to the information in the Proxy Statement, which we intend to file with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information.”

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE
The information required by this item is incorporated herein by reference to the information in the Proxy Statement, which we intend to file with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K under the caption “Election of Directors—Determination of Independence,” and “Related Person Transactions.”

ITEM 14: PRINCIPAL ACCOUNTANT FEES AND SERVICES
The information required by this item is incorporated herein by reference to the information in the Proxy Statement, which we intend to file with the SEC no later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, under the caption “Audit Fees.”

ITEM 15: EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The following documents are filed as part of this Annual Report on Form 10-K:

(i) Report of Independent Registered Public Accounting Firm
(ii) Consolidated Balance Sheets as of December 31, 2016 and 2015
(iii) Consolidated Statements of Operations for the years ended December 31, 2016, 2015 and 2014
(iv) Consolidated Statements of Shareholders' Equity for the years ended December 31, 2016, 2015 and 2014
(v) Consolidated Statements of Cash Flows for the years ended December 31, 2016, 2015 and 2014
(vi) Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

All schedules have been omitted since they are not required or are not applicable or the required information is shown in the consolidated financial statements or related notes.

(a)(3) Exhibits

See the Exhibit Index at page E-1 of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

		DIGIMARC CORPORATION
Date: February 23, 2017	By:	/S/ CHARLES BECK Charles Beck
		Title: Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

Signature	Title	Date
/S/ BRUCE DAVIS Bruce Davis	Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	February 23, 2017
/S/ CHARLES BECK Charles Beck	Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)	February 23, 2017
/S/ GARY DESTEFANO Gary DeStefano	Director	February 23, 2017
/S/ RICHARD L. KING Richard L. King	Director	February 23, 2017
/S/ WILLIAM J. MILLER William J. Miller	Director	February 23, 2017
/S/ JAMES T. RICHARDSON James T. Richardson	Director	February 23, 2017
/S/ ANDREW WALTER Andrew Walter	Director	February 23, 2017
/S/ BERNARD WHITNEY Bernard Whitney	Director	February 23, 2017

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Digimarc Corporation:

We have audited the accompanying consolidated balance sheets of Digimarc Corporation and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Digimarc Corporation and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 23, 2017 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Portland, Oregon

February 23, 2017

DIGIMARC CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	December 31, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 11,638	$ 3,160
Marketable securities	44,496	33,027
Trade accounts receivable, net	5,078	4,616
Other current assets	1,695	1,487
Total current assets	62,907	42,290
Marketable securities	4,392	2,999
Property and equipment, net	3,570	3,010
Intangibles, net	6,422	6,613
Goodwill	1,114	1,114
Other assets	331	338
Total assets	$ 78,736	$ 56,364
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 1,523	$ 1,657
Deferred revenue	2,923	3,023
Total current liabilities	4,446	4,680
Deferred rent and other long-term liabilities	956	226
Total liabilities	5,402	4,906
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred stock (par value $0.001 per share, 2,500 authorized, 10 shares issued and outstanding at December 31, 2016 and 2015)	50	50
Common stock (par value $0.001 per share, 50,000 authorized, 10,523 and 8,919 shares issued and outstanding at December 31, 2016 and 2015, respectively)	11	9
Additional paid-in capital	120,985	77,439
Accumulated deficit	(47,712)	(26,040)
Total shareholders' equity	73,334	51,458
Total liabilities and shareholders' equity	$ 78,736	$ 56,364

See Notes to Consolidated Financial Statements.

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DIGIMARC CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Revenue:			
Service	$ 12,667	$ 12,517	$ 11,727
Subscription	5,808	6,377	6,203
License	3,318	3,295	7,728
Total revenue	21,793	22,189	25,658
Cost of revenue:			
Service	5,673	5,488	5,077
Subscription	2,410	3,113	3,020
License	414	346	334
Total cost of revenue	8,497	8,947	8,431
Gross profit	13,296	13,242	17,227
Operating expenses:			
Sales and marketing	11,888	9,275	7,974
Research, development and engineering	13,394	12,465	13,711
General and administrative	8,298	7,954	8,972
Intellectual property	1,636	1,525	1,793
Total operating expenses	35,216	31,219	32,450
Operating loss	(21,920)	(17,977)	(15,223)
Other income, net	258	109	55
Loss before income taxes	(21,662)	(17,868)	(15,168)
Provision for income taxes	(10)	(66)	(652)
Net loss	$ (21,672)	$ (17,934)	$ (15,820)
Earnings (loss) per common share:			
Loss per common share—basic	$ (2.36)	$ (2.19)	$ (2.22)
Loss per common share—diluted	$ (2.36)	$ (2.19)	$ (2.22)
Weighted average common shares outstanding—basic	9,188	8,198	7,187
Weighted average common shares outstanding—diluted	9,188	8,198	7,187
Cash dividends declared per common share	$ —	$ —	$ 0.22

See Notes to Consolidated Financial Statements.

DIGIMARC CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2013	10	50	7,401	7	41,498	9,368	50,923
Issuance of common stock, net of issuance costs	—	—	684	1	15,988	—	15,989
Exercise of stock options	—	—	202	—	1,487	—	1,487
Issuance of restricted common stock	—	—	283	—	—	—	—
Forfeiture of restricted common stock	—	—	(38)	—	—	—	—
Purchase and retirement of common stock	—	—	(105)	—	(2,392)	—	(2,392)
Stock-based compensation	—	—	—	—	5,580	—	5,580
Tax impact from stock-based awards	—	—	—	—	(1,939)	—	(1,939)
Net loss	—	—	—	—	—	(15,820)	(15,820)
Cash dividends declared	—	—	—	—	—	(1,654)	(1,654)
BALANCE AT DECEMBER 31, 2014	10	$ 50	8,427	$ 8	$ 60,222	$ (8,106)	$ 52,174
Issuance of common stock, net of issuance costs	—	—	342	1	12,895	—	12,896
Exercise of stock options	—	—	111	—	1,514	—	1,514
Issuance of restricted common stock	—	—	150	—	—	—	—
Forfeiture of restricted common stock	—	—	(31)	—	—	—	—
Purchase and retirement of common stock	—	—	(80)	—	(2,443)	—	(2,443)
Stock-based compensation	—	—	—	—	5,251	—	5,251
Net loss	—	—	—	—	—	(17,934)	(17,934)
Cash dividends declared	—	—	—	—	—	—	—
BALANCE AT DECEMBER 31, 2015	10	$ 50	8,919	$ 9	$ 77,439	$ (26,040)	$ 51,458
Issuance of common stock, net of issuance costs	—	—	1,418	2	39,698	—	39,700
Exercise of stock options	—	—	69	—	668	—	668
Issuance of restricted common stock	—	—	212	—	—	—	—
Forfeiture of restricted common stock	—	—	(12)	—	—	—	—
Purchase and retirement of common stock	—	—	(83)	—	(2,537)	—	(2,537)
Stock-based compensation	—	—	—	—	5,717	—	5,717
Net loss	—	—	—	—	—	(21,672)	(21,672)
Cash dividends declared	—	—	—	—	—	—	—
BALANCE AT DECEMBER 31, 2016	10	$ 50	10,523	$ 11	$ 120,985	$ (47,712)	$ 73,334

See Notes to Consolidated Financial Statements.

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DIGIMARC CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Cash flows from operating activities:			
Net loss	$ (21,672)	$ (17,934)	$ (15,820)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation, amortization and write-off of property and equipment	1,336	1,237	974
Amortization and write-off of intangibles	1,121	1,196	1,340
Changes in allowance for doubtful accounts	—	(7)	(23)
Stock-based compensation	5,553	5,077	5,403
Deferred income taxes	—	—	2,085
Changes in operating assets and liabilities:			
Trade accounts receivable	(462)	(64)	1,316
Other current assets	(208)	1,124	(1,028)
Other assets	7	40	192
Accounts payable and other accrued liabilities	637	125	(635)
Deferred revenue	(176)	(534)	(537)
Net cash used in operating activities	(13,864)	(9,740)	(6,733)
Cash flows from investing activities:			
Purchase of property and equipment	(1,837)	(1,218)	(1,399)
Capitalized patent costs	(790)	(895)	(1,190)
Maturity of marketable securities	41,052	42,264	28,074
Purchase of marketable securities	(53,914)	(45,340)	(29,871)
Net cash used in investing activities	(15,489)	(5,189)	(4,386)
Cash flows from financing activities:			
Issuance of common stock, net of issuance costs	39,700	12,896	15,989
Exercise of stock options	668	1,514	1,487
Purchase of common stock	(2,537)	(2,443)	(2,392)
Cash dividends paid	—	—	(1,654)
Net cash provided by financing activities	37,831	11,967	13,430
Net increase (decrease) in cash and cash equivalents	8,478	(2,962)	2,311
Cash and cash equivalents at beginning of period	3,160	6,122	3,811
Cash and cash equivalents at end of period	$ 11,638	$ 3,160	$ 6,122
Supplemental disclosure of cash flow information:			
Cash received (paid) for income taxes, net	$ (38)	$ 1,233	$ 263
Supplemental schedule of non-cash investing activities:			
Property and equipment and patent costs in accounts payable	$ 35	$ 73	$ 140

Stock-based compensation capitalized to software and patent costs	$ 164	$ 174	$ 177

See Notes to Consolidated Financial Statements.

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DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

(1) Description of Business and Summary of Significant Accounting Policies

Description of Business

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

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.

Use of Estimates

The preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the U.S. requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Certain of the Company’s accounting policies require higher degrees of judgment than others in their application. These include revenue recognition, goodwill, impairment of long-lived assets, contingencies and income taxes. Management bases its estimates on historical experience and on other assumptions that are believed to be reasonable in the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Reclassifications

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

Cash Equivalents

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 primarily money market securities, corporate notes and certificates of deposits totaling $10,881 and $2,401 at December 31, 2016 and 2015, respectively. Cash equivalents are carried at cost or amortized cost, which approximates market.

DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

Marketable Securities

The Company considers all investments with original maturities over 90 days that mature in less than one-year from the balance sheet date to be short-term marketable securities. Short- and long-term marketable securities primarily include federal agency notes, commercial paper, corporate notes, pre-refunded municipal bonds and U.S. treasuries. The Company's marketable securities are classified as held-to-maturity and are reported at amortized cost, which approximates market.

A decline in the market value of any security below amortized cost that is deemed to be other-than-temporary results in a reduction in the carrying amount. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether 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 the Company.

Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to yield using a method that approximates the effective interest method. Under this method, dividend and interest income are recognized when earned.

Fair Value of Financial Instruments

Accounting Standards Certification ("ASC") 820 "Fair Value Measurements and Disclosures" defines fair value, establishes a framework for measuring fair value under generally accepted accounting principles in the U.S., and enhances disclosures about fair value measurements. ASC 820 describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the last unobservable, that may be used to measure fair value, which are the following:

- Level 1—Pricing inputs are quoted prices available in active markets for identical investments as of the reporting date.
- Level 2—Pricing inputs are quoted for similar investments, or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data. Level 2 includes investments valued at quoted prices adjusted for legal or contractual restrictions specific to these investments.
- Level 3—Pricing inputs are unobservable for the investment; that is, the inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability.

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 records marketable securities at amortized cost, which approximates fair value.

The Company's fair value hierarchy for its cash equivalents and marketable securities as of December 31, 2016 and 2015, respectively, was as follows:

December 31, 2016	Level 2	Total

	Level 1		Level 3	
Money market securities	$1,218	$—	$ —	$1,218
Federal agency notes	—	16,810	—	16,810
Commercial paper	—	16,757	—	16,757
Corporate notes	—	15,753	—	15,753
Pre-refunded municipal bonds (1)	—	6,716	—	6,716
U.S. treasuries	—	2,515	—	2,515
Total	$1,218	$58,551	$ —	$59,769

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DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

December 31, 2015	Level 1	Level 2	Level 3	Total
Money market securities	$2,001	$—	$ —	$2,001
Federal agency notes	—	11,722	—	11,722
U.S. treasuries	—	7,059	—	7,059
Corporate notes	—	6,884	—	6,884
Pre-refunded municipal bonds (1)	—	4,747	—	4,747
Commercial paper	—	3,794	—	3,794
Certificates of deposits	—	2,220	—	2,220
Total	$2,001	$36,426	$ —	$38,427

(1) Pre-refunded municipal bonds are collateralized by U.S. treasuries.

The fair value maturities of the Company's cash equivalents and marketable securities as of December 31, 2016 are 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	$59,769	$ 55,377	$4,392	$ —	$ —

Concentrations of Business and Credit Risk

A significant portion of the Company's business depends on a limited number of large contracts. The loss of any large contract may result in loss of revenue and margin on a prospective basis. Financial instruments that potentially subject Digimarc to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, and accounts receivable. Digimarc places its cash and cash equivalents with major banks and financial institutions and at times deposits may exceed insured limits. Other than cash used for operating needs, which may include short-term marketable securities with the Company's principal banks, Digimarc's investment policy limits its credit exposure to any one financial institution or type of financial instrument by limiting the maximum of 5% of its cash equivalents and marketable securities or $1,000, 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. The Company's investment policy also limits its credit exposure by limiting the maximum of 40% of its cash equivalents and marketable securities, or $15,000, whichever is greater, to be invested in any one industry category, (e.g., financial or energy industries), at the time of purchase. As a result, Digimarc's credit risk associated with cash and cash equivalents and marketable securities is believed to be minimal.

Contingencies

The Company evaluates all pending or threatened contingencies or commitments, if any, that are reasonably likely to have a material adverse effect on the Company's operations or financial position. The Company assesses the probability of an adverse outcome and determines if it is remote, reasonably possible or probable as defined in accordance with the provisions of ASC 450 "Contingencies." If information available prior to the issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred at the date of the financial statements, and the amount of the loss, or the range of probable loss can be reasonably estimated, then the loss is accrued and charged to operations. If no accrual is made for a loss contingency because one or both of the conditions pursuant to ASC 450 are not met, but the probability of an adverse outcome is at least reasonably possible, the Company will disclose the nature of the contingency and provide an estimate of the possible loss or range of loss, or state that such an estimate cannot be made.

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DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

Equity Method Investments

The Company accounts for its joint ventures under the equity method of accounting pursuant to ASC 323 "Investments—Equity Method and Joint Ventures." Under the equity method, investments are carried at cost, plus or minus the Company's proportionate share, based on present ownership interests, of: (a) the investee's profit or loss after the date of acquisition; (b) changes in the Company's equity that have not been recognized in the investee's profit or loss; and (c) certain other adjustments. Distributions received from the investee (such as dividends) reduce the carrying amount of the investment.

Goodwill

The Company accounts for business combinations under the acquisition method of accounting in accordance with ASC 805, "Business Combinations," where the total purchase price is allocated to the tangible and identified intangible assets acquired and liabilities assumed based on their estimated fair values. The purchase price is allocated using the information currently available, and may be adjusted, up to one-year from acquisition date, after obtaining more information regarding, among other things, asset valuations, liabilities assumed and revisions to preliminary estimates.

Contingent consideration, if any, is recorded at the acquisition date based upon the estimated fair value of the contingent payments. The fair value of the contingent consideration is re-measured each reporting period with any adjustments in fair value being recognized in earnings from operations.

The purchase price in excess of the fair value of the tangible and identified intangible assets acquired less liabilities assumed is recognized as goodwill.

The Company tests goodwill for impairment annually in June and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Such reviews assess the fair value of the Company's assets compared to their carrying value. 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.

Impairment of Long-Lived Assets

The Company assesses long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, in accordance with the provisions of ASC 360 "Property, Plant and Equipment."

Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future net undiscounted cash flows expected to be generated by the assets over their remaining useful life. If such assets are considered to be impaired, the impairment would be recognized in operating results at the amount by which the carrying amount of the assets exceeds the fair value of the assets. Fair value is determined based on discounted cash flows or appraised values, depending on the nature of the assets.

Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

Research and Development

Research and development costs are expensed as incurred in accordance with ASC 730 “Research and Development.”

DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

Software Development Costs

Under ASC 985 “Software,” software development costs are to be capitalized beginning when a product’s technological feasibility has been established and ending when a product is made available for general release to customers. To date, the establishment of technological feasibility of the Company’s products has occurred shortly before general release and, therefore, software development costs qualifying for capitalization have been immaterial. Accordingly, the Company has not capitalized any software development costs and has charged all such costs to research and development expense.

Patent Costs

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 award date, which varies depending on the pendency period of the application, generally approximating seventeen years. Capitalized patent costs, also referred to as patent prosecution costs, include internal legal labor, professional legal fees, government filing fees and translation fees related to expanding the Company’s patent portfolio.

Costs associated with the maintenance and annuity fees of patents are accounted for as prepaid assets at the time of payment and amortized over the shorter of the maintenance period or remaining life of the related patent.

Revenue Recognition

See Note 2 for detailed disclosures of the Company’s revenue recognition policy.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with ASC 718 “Compensation—Stock Compensation,” which requires the measurement and recognition of compensation for all stock-based awards made to employees and directors including stock options and restricted stock based on estimated fair values.

For stock option awards, the Company uses the Black-Scholes option pricing model as its method of valuation. The Company’s determination of the fair value on the date of grant is affected by its stock price as well as assumptions regarding a number of subjective variables. These variables include, but are not limited to, the expected life of the award, the Company’s expected stock price volatility over the term of the award, the risk-free interest rate and the expected dividend yield. Although the fair value of stock-based awards is determined in accordance with ASC 718 and SAB No. 107 “Shared-Based Payment,” the Black-Scholes option pricing model requires the input of subjective assumptions, and other reasonable assumptions could provide differing results.

The fair value of restricted stock awards is based on the fair market value of the Company’s common stock on the date of the grant (measurement date), and is recognized over the vesting period of the award using the straight-line method.

Income Taxes

The Company accounts for income taxes in accordance with ASC 740 “Income Taxes” utilizing the asset and liability method. Under the asset and liability method, deferred income taxes reflect the future tax consequences of differences between the tax basis of assets and liabilities and their financial reporting amounts. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period of enactment.

The Company records valuation allowances on 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.

DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

The Company is subject to federal and state income taxes within the U.S., and, in the ordinary course of business, there are transactions and calculations where the ultimate tax determination is uncertain. The Company reports a liability (or contra asset) for unrecognized tax benefits resulting from uncertain tax positions taken (or expected to be taken) on a tax return. The Company recognizes interest and penalties, if any, related to the unrecognized tax benefits in income tax expense.

Accounting Pronouncements Issued But Not Yet Adopted

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)." ASU No. 2014-09 provides specific guidance to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In August 2015, the FASB issued ASU No. 2015-14 to defer the effective date of the new revenue standard for public entities by one-year to annual reporting periods beginning after December 31, 2017, and interim periods beginning in the first interim period within the year of adoption. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company has developed an implementation plan to adopt this new guidance. As part of this plan, the Company is currently assessing the potential future impact of this standard on the Company's financial condition, results of operations and disclosures. Based on procedures performed to date, the impact of this standard on service and license revenues is not expected to have a material impact on the Company, however, the Company will continue to evaluate this assessment. The Company is not far enough along in the evaluation of the impact of the standard on subscription revenue to make any conclusions at this time. The guidance permits the use of either the retrospective or cumulative effect transition method. The Company plans to utilize the cumulative effect transition method and will adopt this standard effective January 1, 2018.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which supersedes Topic 840, Leases. ASU No. 2016-02 increases the transparency and comparability of organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. This guidance requires that operating leases recognize a right-of-use asset and a lease liability measured at the present value of the lease payments in the statement of financial position, recognize a single lease cost allocated over the lease term on a generally straight-line basis, and classify all cash payments within operating activities in the statement of cash flows. The amendments in this update are effective for fiscal years beginning after December 31, 2018, and interim periods beginning in the first interim period within the year of adoption. Early adoption is permitted. In transition, lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach, which includes a number of optional practical expedients that entities may elect to apply. While the Company is currently assessing the potential future impact of adopting this standard, the Company expects the primary impact will be the recognition, on a discounted basis, of our minimum commitments under non-cancelable operating leases on our consolidated balance sheets, resulting in the recording of right of use assets and lease obligations. The Company's minimum commitments under non-cancelable operating leases are disclosed in Note 7.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation – Stock Compensation: Improvements to Employee Share-Based Payment Accounting (Topic 718)." ASU No. 2016-09 simplifies the accounting for share-based payment transactions, including accounting for income taxes, forfeitures, statutory tax withholding requirements, and classification in the statement of cash flows. The amendments in this update are effective for fiscal years beginning after December 31, 2016, and interim periods beginning in the first interim period within the year of adoption. Early adoption is permitted. Any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. Effective January 1, 2017, the Company made a policy election to account for forfeitures of stock-based awards when they occur versus estimating and applying a forfeiture rate. The policy election will result in an immaterial adjustment to opening retained earnings. Also effective January 1, 2017, the Company will provide employees the option to elect the minimum or the maximum statutory tax-withholding rate to be applied on the exercise or vesting of stock-based awards. Upon adoption of this standard, deferred tax assets will be recorded for previously unrecognized excess tax benefits as of December 31, 2016, which we expect will be

DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

offset by valuation allowance. Any future excess tax benefits will be recognized in the income tax provision when realized and would be offset by any required valuation allowance. The adoption of the standard is not expected to have a material impact on the Company's financial condition, results of operations, cash flows and disclosures.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows – Classification of Certain Cash Receipts and Cash Payments (Topic 230)." ASU No. 2016-15 adds or clarifies guidance on specific cash flow issues to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The amendments in this update are effective for fiscal years beginning after December 31, 2017, and interim periods beginning in the first interim period within the year of adoption. Early adoption is permitted. Any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The amendments in this update are to be applied retrospectively to all periods presented but may apply it prospectively from the earliest date practicable if retrospective application would be impracticable. The Company is currently assessing the potential future impact of this standard on its cash flows and disclosures.

(2) Revenue Recognition

The Company derives its revenue primarily from professional services, subscriptions and licensing of its intellectual property:

- Service revenue consists primarily of software development and consulting services. The majority of service revenue arrangements are structured as time and materials consulting agreements.
- Subscription revenue includes Digimarc Discover, Digimarc Barcode and Guardian products and services, is generally recurring, paid in advance and recognized over the term of the subscription.
- License revenue originates primarily from licensing the Company's intellectual property where the Company receives license fees and/or royalties as its income stream.

Revenue is recognized in accordance with ASC 605 "Revenue Recognition" and ASC 985 "Software" when the following four criteria are met:

(i) persuasive evidence of an arrangement exists,
(ii) delivery has occurred,
(iii) the fee is fixed or determinable, and
(iv) collection is reasonably assured or probable.

Some customer arrangements encompass multiple deliverables, such as professional services, software licenses, and maintenance and support fees. For arrangements that include multiple deliverables, the Company identifies separate units of accounting at inception based on the consensus reached under ASC 605-25 "Multiple-Element Arrangements," which provides that revenue arrangements with multiple deliverables should be divided into separate units of accounting if certain criteria are met. The Company applies ASC 985 to software deliverables when relevant. The consideration for the arrangements under ASC 605-25 is allocated to the separate units of accounting using the relative selling price method.

The relative selling price method allocates the consideration based on the Company’s specific assumptions rather than assumptions of a marketplace participant, and any discount in the arrangement proportionally to each deliverable on the basis of each deliverable’s selling price.

DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

Applicable revenue recognition criteria are considered separately for each separate unit of accounting as follows:

- Service revenue is generally determined based on time and materials. Revenue for development and consulting services is recognized as the services are performed. Billing for services rendered generally occurs within one month after the services are provided.
- Subscription revenue, which includes revenue from the sale of Digimarc Discover, Digimarc Barcode and Guardian products and services, is generally paid in advance and recognized over the term of the subscription, which is generally one to three years.
- License revenue is recognized when amounts owed to the Company have been earned, are fixed or determinable (within the Company's normal 30 to 60 day payment terms), and collection is reasonably assured. If the payment terms extend beyond the normal 30 to 60 days, the fee may not be considered to be fixed or determinable, and the revenue would then be recognized when installments are due.
- The Company records revenue from certain license agreements upon cash receipt as a result of collectability not being reasonably assured.
- The Company's standard payment terms for license arrangements are 30 to 60 days. Extended payment terms on patent license arrangements are not considered to be fixed or determinable if payments are due beyond the Company's standard payment terms, primarily because of the risk of substantial modification present in the Company's patent licensing business. As such, revenue on license arrangements with extended payment terms are recognized as fees become fixed or determinable.

Deferred revenue consists of billings in advance for professional services, subscriptions and licenses for which revenue has not been earned.

(3) Segment Information

Geographic Information

The Company derives its revenue from a single reporting segment: media management solutions. Revenue is generated in this segment through development services, subscriptions and licensing of intellectual property. The Company markets its products in the U.S. and in non-U.S. countries through its sales and licensing personnel.

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

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Domestic	$ 4,776	$ 6,304	$ 9,596
International (1)	17,017	$ 15,885	16,062

Total	$ 21,793	$ 22,189	$ 25,658

(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.

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DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

Major Customers

Customers who accounted for 10% or more of the Company’s revenue are as follows:

	Year Ended December 31, 2016		Year Ended December 31, 2015		Year Ended December 31, 2014	
Central Banks	62	%	57	%	47	%
Verance Corporation ("Verance")	*		*		12	%

*Less than 10%

In September 2014, the Company extended the patent license agreement with Verance through 2023, in effect waiving any future royalties and license fees, in exchange for a $1.0 million license fee payment. The license fee payment was recorded as revenue upon receipt in the third quarter of 2014.

Long-lived assets by geographical area

The Company’s long-lived assets are all domestic, domiciled in the U.S.

(4) Stock-Based Compensation

Stock-based compensation includes expense charges for all stock-based awards to employees and directors. These awards include option grants and restricted stock awards.

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

Determining Fair Value

Stock Options

Valuation and Amortization Method. The Company estimates the fair value of stock options granted using the Black-Scholes option valuation model. The Company amortizes the fair value of all awards on a straight-line basis over the requisite service periods, which are generally the vesting periods.

Expected Life. The expected life of awards granted represents the period of time that they are expected to be outstanding. The Company determines the expected life based on historical experience with similar awards, giving consideration to the contractual terms, vesting schedules and pre-vesting and post-vesting forfeitures. Stock options granted generally vest over three to four years for employee grants and one to two years for director grants, and have contractual terms of ten years.

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 expected life 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 expected life of the award.

Expected Dividend Yield. The expected dividend yield is derived by the Company’s expected annual dividend rate over the expected term divided by the fair value of the Company’s common stock at the grant date.

There were no stock options granted during the years ended December 31, 2016, 2015 and 2014.

DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

The Company records stock-based compensation expense for stock option awards only for those awards that are expected to vest.

Restricted Stock

The fair value of restricted stock awarded is based on the fair market value of the Company’s common stock on the date of the grant (measurement date), and is recognized over the vesting period of the award using the straight-line method.

The Company records stock-based compensation expense for restricted stock awards only for those awards that are expected to vest.

Stock-based Compensation

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Stock-based compensation:			
Cost of revenue	$ 709	$ 740	$ 545
Sales and marketing	975	775	674
Research, development and engineering	1,381	1,308	1,406
General and administrative	2,182	1,978	2,454
Intellectual property	306	276	324
Stock-based compensation expense	5,553	5,077	5,403
Capitalized to software and patent costs	164	174	177
Total stock-based compensation	$ 5,717	$ 5,251	$ 5,580

The following table sets forth total unrecognized compensation cost related to non-vested stock-based awards granted under all equity compensation plans:

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Total unrecognized compensation costs	$ 9,728	$ 9,549	$ 11,206

Total unrecognized compensation costs will be adjusted for any future forfeitures.

The Company expects to recognize the total unrecognized compensation costs as of December 31, 2016 for stock options and restricted stock over weighted average periods through December 2020 as follows:

	Stock Options	Restricted Stock
Weighted average period	0.0 years	1.3 years

(5) Earnings Per Common Share

The Company calculates basic and diluted earnings per common share in accordance with ASC 260 “Earnings Per Share,” using the two-class method because the Company’s unvested restricted stock is a participating security since these awards contain non-forfeitable rights to receive dividends. Under the two-class method, earnings are allocated to each class of common stock and participating security as if all of the earnings for the period had been distributed.

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DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

Basic earnings per common share excludes dilution and is calculated by dividing earnings to common shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing earnings to common shares by the weighted-average number of common shares, as adjusted for the potentially dilutive effect of stock options. The following table reconciles earnings (loss) per common share for the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Basic Earnings (Loss) per Common Share:			
Numerator:			
Net loss	$ (21,672)	$ (17,934)	$ (15,820)
Distributed earnings to common shares	—	—	1,553
Distributed earnings to participating securities	—	—	101
Total distributed earnings	—	—	1,654
Undistributed loss allocable to common shares	(21,672)	(17,934)	(17,474)
Undistributed earnings allocable to participating securities	—	—	—
Total undistributed loss	(21,672)	(17,934)	(17,474)
Loss to common shares—basic	$ (21,672)	$ (17,934)	$ (15,921)
Denominator			
Weighted average common shares outstanding—basic	9,188	8,198	7,187
Basic earnings (loss) per common share	$ (2.36)	$ (2.19)	$ (2.22)

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Diluted Earnings (Loss) per Common Share:			
Numerator:			
Loss to common shares—basic	$ (21,672)	$ (17,934)	$ (15,921)
Undistributed earnings allocated to participating securities	—	—	—
Undistributed earnings reallocated to participating securities	—	—	—
Loss to common shares—diluted	$ (21,672)	$ (17,934)	$ (15,921)

Denominator			
Weighted average common shares outstanding— basic	9,188	8,198	7,187
Dilutive effect of stock options	—	—	—
Weighted average common shares outstanding— dilutive	9,188	8,198	7,187
Diluted earnings (loss) per common share	$ (2.36)	$ (2.19)	$ (2.22)

There were 0, 0 and 175 common stock equivalents related to stock options that were anti-dilutive and excluded from diluted earnings per common share for the years ended December 31, 2016, 2015 and 2014, respectively, because their exercise prices were higher than the average market price of the underlying common stock for the period.

There were 187, 230 and 217 common stock equivalents related to stock options that were anti-dilutive and excluded from diluted earnings per common share for the years ended December 31, 2016, 2015 and 2014, respectively, because the Company incurred a net loss for the period.

DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

(6) Trade Accounts Receivable and Allowance for Doubtful Accounts

Trade Accounts Receivable

Trade accounts receivable are recorded at the invoiced amount.

	December 31, 2016	December 31, 2015
Trade accounts receivable	$ 5,093	$ 4,631
Allowance for doubtful accounts	(15)	(15)
Trade accounts receivable, net	$ 5,078	$ 4,616
Unpaid deferred revenue included in trade accounts receivable	$ 2,245	$ 2,012

Allowance for doubtful accounts

The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in the Company's existing trade accounts receivable. The Company determines the allowance based on historical write-off experience and current information. The Company reviews its allowance for doubtful accounts each reporting period. Account balances are charged against the allowance after all means of collection have been exhausted and the potential for recovery is considered remote.

Unpaid deferred revenue

The unpaid deferred revenue that are included in trade accounts receivable are billed in accordance with the provisions of the contracts with the Company's customers. Unpaid deferred revenue from the Company's cash-basis customers are not included in trade accounts receivable nor deferred revenue.

Major customers

Customers who accounted for 10% or more of trade accounts receivable, net are as follows:

	December 31, 2016	December 31, 2015
Central Banks	57 %	62 %

(7) Property and Equipment

Property and Equipment

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

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DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

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.

	December 31, 2016	December 31, 2015
Office furniture and fixtures	$ 1,168	$ 1,068
Software	2,146	1,748
Equipment	4,071	3,416
Leasehold improvements	1,617	1,276
Gross property and equipment	9,002	7,508
Less accumulated depreciation and amortization	(5,432)	(4,498)
Property and equipment, net	$ 3,570	$ 3,010

Leases

Future minimum lease payments under non-cancelable operating leases are as follows:

Year ending December 31:	Operating Leases
2017	$ 784
2018	992
2019	1,023
2020	848
2021	804
Thereafter	1,899
Total minimum lease payments	$ 6,350

Rent expense on the operating leases was as follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Rent expense	$ 1,022	$ 1,045	$ 951

(8) 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 years ended December 31, 2016, 2015 and 2014.

Amortization of capitalized 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, generally approximating seventeen years.

DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(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)	December 31, 2016	December 31, 2015
Capitalized patent costs	17-20	$ 7,281	$ 6,779
Intangible assets acquired:			
Purchased patents and intellectual property	3-10	250	250
Existing technology	5	1,560	1,560
Customer relationships	7	290	290
Backlog	2	760	760
Tradenames	3	290	290
Non-solicitation agreements	1	120	120
Gross intangible assets		10,551	10,049
Accumulated amortization		(4,129)	(3,436)
Intangibles, net		$ 6,422	$ 6,613

Amortization expense on intangible assets was as follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Amortization expense	$ 693	$ 722	$ 1,047

For intangible assets recorded at December 31, 2016, the estimated future aggregate amortization expense for the years ending December 31, 2017 through 2021 is approximately as follows:

Year ending December 31:	Amortization Expense
2017	$ 657
2018	364
2019	344
2020	300
2021	238

(9) Shareholders' Equity

Preferred Stock

In June 2008, the Board of Directors authorized 2,500 shares of preferred stock, par value $0.001 per share. The Board of Directors has the authority to issue the undesignated preferred stock in one or more series and to determine the powers, preferences and rights and the qualifications, limitations or restrictions granted to or imposed upon any wholly unissued series of undesignated preferred stock and to fix the number of shares constituting any series and the designation of such series, without any further vote or action by the shareholders. The issuance of preferred stock may have the effect of delaying, deferring or preventing a change of control of the Company without further action by shareholders and may adversely affect the voting and other rights of the holders of common stock.

The Board of Directors authorized 10 shares of Series A Redeemable Nonvoting Preferred stock ("Series A Preferred") that were issued to certain executive officers at the time of formation. The Series A Preferred has no voting rights, except as required by law, and may be redeemed at the option of the Company's Board of Directors at any time on or after June 18, 2013.

DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

The Series A Preferred is redeemable based on the stated fair value of $5.00 per share. The Series A Preferred has no dividend rights and no rights to the undistributed earnings of the Company.

Common Stock

In June 2008, the Board of Directors authorized 50,000 shares of common stock, par value $0.001 per share. The holders of Digimarc common stock are entitled to one vote for each share held of record on all matters submitted to a vote of its shareholders, including the election of directors. Subject to preferences that may be granted to any then outstanding preferred stock, holders of common stock are entitled to receive ratably those dividends as may be declared by the Board of Directors out of funds legally available for such purpose, as well as any distributions to the Company's shareholders. In the event of the Company's liquidation, dissolution or winding up, holders of common stock are entitled to share ratably in all of the Company's assets remaining after payment of liabilities and the liquidation preference of any then outstanding preferred stock. Holders of common stock have no preemptive or other subscription or conversion rights. There are no redemption or sinking fund provisions applicable to the common stock. All outstanding shares of common stock are fully paid and non-assessable.

In August 2016, the Company sold 1,233 shares of its common stock in an underwritten public offering, plus an additional 185 shares in full exercise of the underwriters' option to purchase additional shares of common stock, at the price to the public of $30.00 per share. The Company received $39,953 of cash proceeds, net of discount of $2,447 and underwriter fees of $150, from the offering, and paid $253 in stock issuance costs for legal and accounting fees.

In August 2014, the Company entered into an Equity Distribution Agreement, whereby the Company could sell from time to time through Wells Fargo Securities, LLC, as sales agent, the Company's common stock having an aggregate offering price of up to $30,000. As of December 31, 2015, the Company had sold 1,026 shares under the Equity Distribution Agreement at an average price of $29.24 resulting in $29,300 of cash proceeds, net of sales commissions of $700, and paid $415 in stock issuance costs for legal and accounting fees. There are no shares remaining to be sold under the Equity Distribution Agreement.

Stock Incentive Plan

In July 2008, the Company's Board of Directors initially adopted the 2008 Incentive Plan (2008 Plan). The 2008 Plan provides for the grant of stock options, stock appreciation rights, stock awards, restricted stock, stock units, performance shares, performance units, and cash-based awards, which may be granted to officers, directors, employees, consultants, agents, advisors and independent contractors who provide services to the Company and its affiliated companies.

The 2008 Plan authorizes the issuance of up to 3,500 shares of common stock. The shares authorized under the 2008 Plan are subject to adjustment in the event of a stock split, stock dividend, recapitalization or similar event. Shares issued under the 2008 Plan will consist of authorized and unissued shares or shares held by the Company as treasury shares. If an award granted under the 2008 Plan lapses, expires, terminates or is forfeited or surrendered without having been fully exercised or without the issuance of all the shares subject to the award, the shares covered by that award will again be available for issuance under the 2008 Plan. Shares that are (i) tendered by a participant or retained by the Company as payment for the purchase price of an award or to satisfy tax withholding obligations or (ii) covered by an award that is settled in cash, or in some manner that some or all of the shares covered by the award are not issued, will again be available for issuance under the 2008 Plan. In addition, awards granted as substitute awards in connection with acquisition transactions will not reduce the number of shares authorized for issuance under the 2008 Plan.

As of December 31, 2016, under all of the Company’s stock-based compensation plans, equity awards to purchase an additional 1,325 shares were authorized for future grants under the plans.

DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

Stock Options

The Company issues new shares upon option exercises.

Options granted, exercised and forfeited under the stock incentive plan are summarized as follows:

	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Options outstanding, December 31, 2013	813	$ 15.44	$ 7.96	
Granted	—	—	—	
Exercised	(202)	$ 10.48	$ 6.48	
Forfeited or expired	(10)	$ 24.35	$ 9.84	
Options outstanding, December 31, 2014	601	$ 16.97	$ 8.42	
Granted	—	—	—	
Exercised	(111)	$ 13.61	$ 7.25	
Forfeited or expired	—	—	—	
Options outstanding, December 31, 2015	490	$ 17.73	$ 8.69	
Granted	—	—	—	
Exercised	(69)	$ 9.64	$ 6.75	
Forfeited or expired	—	—	—	
Options outstanding, December 31, 2016	421	$ 19.06	$ 9.01	$ 4,601
Options exercisable, December 31, 2016	421	$ 19.06		$ 4,601

The aggregate intrinsic value is based on the closing price of $30.00 per share of Digimarc common stock on December 31, 2016, which would have been received by the optionees had all of the options with exercise prices less than $30.00 per share been exercised on that date.

The following table summarizes information about stock options outstanding at December 31, 2016:

	Options Outstanding			Options Exercisable		
Exercise Price	Number Outstanding	Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number Outstanding	Remaining Contractual Life (Years)	Weighted Average Exercise Price
$9.64 - $9.91	140	1.91	$ 9.68	140	1.91	$ 9.68

$14.99 - $18.01	106	3.08	$ 15.63	106	3.08	$ 15.63
$27.61 - $30.01	175	4.49	$ 28.64	175	4.49	$ 28.64
$9.64 - $30.01	421	3.28	$ 19.06	421	3.28	$ 19.06

Restricted Stock

The Compensation Committee of the Board of Directors has awarded shares of restricted stock under the Company's 2008 Plan to certain employees. The shares subject to the restricted stock awards vest over a certain period, usually four years, following the date of the grant. Specific terms of the restricted stock awards are governed by Restricted Stock Agreements between the Company and the award recipients.

DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

The following table reconciles the unvested balance of restricted stock:

	Number of Shares	Weighted Average Grant Date Fair Value
Unvested balance, December 31, 2013	448	$ 19.89
Granted	283	$ 28.79
Vested	(191)	$ 23.56
Forfeited	(38)	$ 25.44
Unvested balance, December 31, 2014	502	$ 23.09
Granted	150	$ 28.96
Vested	(213)	$ 24.78
Forfeited	(31)	$ 23.96
Unvested balance, December 31, 2015	408	$ 24.30
Granted	212	$ 29.42
Vested	(223)	$ 25.50
Forfeited	(12)	$ 29.15
Unvested balance, December 31, 2016	385	$ 26.28

The following table indicates the fair value of all restricted stock awards that vested during the years ended December 31, 2016, 2015 and 2014:

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Fair value of restricted stock awards vested	$ 6,688	$ 6,350	$ 5,632

(10) Defined Contribution Plan

The Company sponsors an employee retirement savings plan (the “Plan”) which qualifies as a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. The Plan combines both an employee savings plan and company matching plan into one plan under Section 401(k), including a 401(k) Roth option. Employees become eligible to participate in the Plan at the beginning of the month following the employee’s hire date. Employees may contribute up to 75% of their pay to the Plan, subject to the limitations of the Internal Revenue Code. Company matching contributions are mandatory under the Plan.

The Company made matching contributions in the aggregate amount as follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Matching contributions	$ 775	$ 523	$ 511

(11) Joint Venture and Related Party Transactions

In June 2009, the Company entered into two joint venture agreements with Nielsen to launch two new companies: TVaura LLC (in which Digimarc holds a 51% ownership interest) and TVaura Mobile LLC (in which Digimarc holds a 49% ownership interest). The two joint venture agreements and a revised patent license agreement expanded and replaced the previous license and services agreement between the Company and Nielsen that had been in operation since late 2007. Under the joint venture agreements, the Company and Nielsen agreed to work together to develop new products and services, including the expansion and deployment of those products and services that were in development under the prior agreement.

DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

Under the terms of the revised patent license agreement, Nielsen agreed to pay Digimarc $18,750 during the period from July 2009 through January 2014, and Digimarc granted to Nielsen a non-exclusive license to Digimarc’s patents for use within Nielsen’s business. The term of the license continues until the expiration of the last patent under the license. The payment terms extended beyond the Company’s normal 30 to 60 day payment terms, thus the license revenue was recognized when the installments were due.

In March 2012, Digimarc and Nielsen decided to reduce investments in their two joint ventures to minimal levels while assessing alternative approaches to achieving each of their goals in the emerging market opportunity of synchronized second screen television.

In October 2015, Digimarc and Nielsen reactivated the TVaura Mobile LLC joint venture to develop solutions for programmers and advertisers to engage with consumers on second screens and otherwise provide enhanced flexibility to brand strategies targeting modern consumers. The enhanced cooperation represents another building block in developing the market for Digimarc Discover and Digimarc Barcode. Neither Digimarc nor Nielsen has contributed any capital to the joint venture since reactivation.

As of December 31, 2016, both Digimarc and Nielsen continued to assess the market opportunities of the TVaura LLC joint venture.

The Company’s investment in each joint venture was $0 as of December 31, 2016 and 2015.

Pursuant to the terms of the agreements and ASC 810 “Consolidation,” the joint ventures are not consolidated with the Company because the minority member of each joint venture has substantive participating rights, or veto rights, such that no member has majority control.

Related Party Transactions

Summarized financial information for TVaura LLC has not been provided as the disclosures are immaterial to the Company’s filing given the operations of the joint venture were suspended during the last three fiscal years. The joint venture had no revenue or expenses for the years ended December 31, 2016, 2015 and 2014, and there were no assets or liabilities as of December 31, 2016 and 2015.

Summarized financial data for TVaura Mobile LLC:

	December 31, 2016	December 31, 2015
Current assets	$ 40	$ 45
Noncurrent assets	$ —	$ —
Current liabilities	$ 11	$ 10
Noncurrent liabilities	$ —	$ —

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Revenue	$ —	$ —	$ —
Gross profit	$ —	$ —	$ —
Operating expenses	$ 5	$ 5	$ 5
Net loss from continuing operations	$ (5)	$ (5)	$ (5)
The Company's pro-rata share—net loss	$ —	$ —	$ —
The Company's loss on investment	$ —	$ —	$ —

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DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

(12) Income Taxes

The provision (benefit) for income taxes reflects current taxes, deferred taxes, and withholding taxes. The effective tax rates for the years ended December 31, 2016, 2015 and 2014 were 0%, 0% and (4)%, respectively. The Company continues to provide for a full 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.

During 2015, the Company amended its 2012 federal tax return to carryback the tax loss generated in 2014 to offset the tax liability, which resulted in a tax refund of $1.3 million.

Components of tax provision (benefit) allocated to continuing operations include the following:

	Year Ended December 31, 2016			Year Ended December 31, 2015			Year Ended December 31, 2014		
Current:									
Federal	$	—		$	(2	)	$	(3,378	)
State		(11	)		49			1	
Foreign		21			19			5	
Sub-total	$	10		$	66		$	(3,372	)
Deferred:									
Federal	$	—		$	—		$	3,516	
State		—			—			508	
Foreign		—			—			—	
Sub-total	$	—		$	—		$	4,024	
Total tax provision (benefit)	$	10		$	66		$	652	

The reconciliation of the statutory federal income tax rate to the Company’s effective income tax rate is as follows:

	Year Ended December 31, 2016			%		Year Ended December 31, 2015			%		Year Ended December 31, 2014			%	
Income taxes computed at statutory rates	$	(7,369	)	34	%	$	(6,081	)	34	%	$	(5,159	)	34	%
Increases (decreases) resulting from:															
State income taxes, net of federal tax benefit		(1,219	)	6	%		(1,298	)	7	%		(700	)	5	%
Impact of federal graduated rates		-		0	%		(4	)	0	%		—		—	
Federal and state research		(1,112	)	5	%		(917	)	5	%		(563	)	4	%

and experimentation credits								
Change in valuation allowance		9,468	(44)%		8,132	(45)%		6,916	(46)%
Other		242	(1)%		234	(1)%		158	(1)%
Total	$	10	0 %	$	66	0 %	$	652	(4)%

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DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The tax effects of significant items comprising the Company's deferred tax assets and deferred tax liabilities are as follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015
Deferred tax assets:		
Stock based compensation	$ 1,524	$ 1,751
Federal and state net operating losses	21,089	12,551
Goodwill	715	826
Accrued compensation	19	51
Deferred rent	344	62
Federal and state research and experimentation credit	3,434	2,322
AMT credit	92	92
Intangible asset differences	253	167
Other	39	74
Total gross deferred tax assets	27,509	17,896
Less valuation allowance	(24,888)	(15,420)
Net deferred tax assets	$ 2,621	$ 2,476
Deferred tax liabilities:		
Patent expenditures	$ (2,012)	$ (2,017)
Fixed asset differences	(609)	(459)
Total gross deferred tax liabilities	$ (2,621)	$ (2,476)
Total net deferred tax assets	$ —	$ —

The Company had a valuation allowance of $24,888 and $15,420 on deferred tax assets as of December 31, 2016 and 2015, respectively, an increase of $9,468 during the year ended December 31, 2016.

As of December 31, 2016, the Company has federal and state net operating loss carry-forwards of $63,309 and $81,436, respectively, which have a carry-forward of 5 to 20 years depending on the jurisdiction. The gross deferred tax assets for federal and state net operating loss carryforwards acquired in the Attributor acquisition have been reduced to the amount of losses allowed to be utilized in the post-acquisition period before expiration after considering the applicable limitations of IRC Sec. 382.

As of December 31, 2016, the Company has federal and state research and experimental tax credits of $4,303 and $1,390, respectively, which have a carry-forward of 5 to 20 years depending on the jurisdiction.

The Company records accrued interest and penalties associated with uncertain tax positions in income tax expense in the consolidated statements of operations. For the years ended December 31, 2016, 2015 and 2014, the Company recognized accrued interest and penalties associated with uncertain tax positions of $0, $4 and $6, respectively. The Company does not anticipate any of its unrecognized benefits will significantly increase or decrease within the next 12 months.

DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

A summary reconciliation of the Company's uncertain tax positions is as follows:

	Year Ended December 31, 2016	Year Ended December 31, 2015	Year Ended December 31, 2014
Beginning balance	$ 425	$ 306	$ 219
Addition for current year tax positions	100	74	58
Addition for prior year tax positions	2	45	29
Reduction for prior year positions resolved during the current year	(41)	—	—
Ending balance	$ 486	$ 425	$ 306

Uncertain tax positions are classified as a long-term liability (or a contra deferred tax asset) on the consolidated balance sheets for uncertain tax positions taken (or expected to be taken) on a tax return.

The Company's open tax years subject to examination in the U.S. federal jurisdiction are 2012 through 2015 and applicable state jurisdictions for the tax years 2012 through 2015. To the extent allowed by law, the taxing authorities may have the right to examine prior periods where net operating losses or tax credits were generated and carried forward, and make adjustments up to the amount of the net operating loss or tax credit carryforward.

(13) Commitments and Contingencies

Certain of the Company's product license 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.

DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

(14) Quarterly Financial Information—Unaudited

	Quarter Ending March 31	June 30	September 30	December 31
2016				
Service revenue	$3,250	$3,148	$ 3,252	$ 3,017
Subscription revenue	1,463	1,494	1,417	1,434
License revenue	867	815	907	729
Total revenue	5,580	5,457	5,576	5,180
Total cost revenue	2,190	2,094	2,162	2,051
Gross profit	3,390	3,363	3,414	3,129
Gross profit percent, service revenue	56 %	55 %	55 %	54 %
Gross profit percent, subscription revenue	55 %	60 %	58 %	61 %
Gross profit percent, license revenue	89 %	88 %	88 %	85 %
Gross profit percent, total	61 %	62 %	61 %	60 %
Sales and marketing	$2,955	$2,856	$ 2,945	$ 3,132
Research, development and engineering	3,305	3,379	3,291	3,419
General and administrative	2,170	1,976	2,039	2,113
Intellectual property	434	462	394	346
Operating loss	(5,474)	(5,310)	(5,255)	(5,881)
Net loss	(5,435)	(5,283)	(5,198)	(5,756)
Earnings (loss) per common share:				
Loss per common share—basic	$(0.64)	$(0.62)	$ (0.55)	$ (0.57)
Loss per common share—diluted	$(0.64)	$(0.62)	$ (0.55)	$ (0.57)
Weighted average common shares outstanding—basic	8,533	8,587	9,506	10,111
Weighted average common shares outstanding—diluted	8,533	8,587	9,506	10,111

DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(In thousands, except per share data)

	Quarter Ending March 31	June 30	September 30	December 31
2015				
Service revenue	$3,501	$3,235	$ 3,072	$ 2,709
Subscription revenue	1,716	1,670	1,561	1,430
License revenue	772	893	753	877
Total revenue	5,989	5,798	5,386	5,016
Total cost revenue	2,416	2,449	2,098	1,984
Gross profit	3,573	3,349	3,288	3,032
Gross profit percent, service revenue	55 %	54 %	61 %	55 %
Gross profit percent, subscription revenue	56 %	48 %	48 %	52 %
Gross profit percent, license revenue	89 %	90 %	89 %	90 %
Gross profit percent, total	60 %	58 %	61 %	60 %
Sales and marketing	$2,090	$2,098	$ 2,309	$ 2,778
Research, development and engineering	3,084	3,025	3,236	3,120
General and administrative	2,206	1,980	1,847	1,921
Intellectual property	367	291	367	500
Operating loss	(4,174)	(4,045)	(4,471)	(5,287)
Net loss	(4,150)	(4,012)	(4,469)	(5,303)
Earnings (loss) per common share:				
Loss per common share—basic	$(0.52)	$(0.50)	$ (0.54)	$ (0.62)
Loss per common share—diluted	$(0.52)	$(0.50)	$ (0.54)	$ (0.62)
Weighted average common shares outstanding— basic	7,960	8,029	8,309	8,485
Weighted average common shares outstanding— diluted	7,960	8,029	8,309	8,485

EXHIBIT INDEX

The agreements included or incorporated by reference as exhibits to this report may contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other party or parties to the applicable agreement and:

- were not intended to be treated as categorical statements of fact, but rather as a means of allocating the risk to one of the parties if those statements prove to be inaccurate;
- were qualified by disclosures that were made to the other party or parties in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of "materiality" that are different from "materiality" under the securities laws; and
- were made only as of the date of the applicable agreement or other date or dates that may be specified in the agreement.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about Digimarc may be found elsewhere in this Annual Report on Form 10-K and in Digimarc's other public filings, which are available without charge through the SEC's website at http://www.sec.gov.

Exhibit Number	Exhibit Description
2.1	Separation Agreement among DMRC Corporation, DMRC LLC, Digimarc Corporation and, with respect to certain sections, L-1 Identity Solutions, Inc. (incorporated by reference to Exhibit 2.1 to Amendment No. 2 to the Company's Registration Statement on Form 10, filed with the Commission on August 13, 2008 (File No. 001-34108))†
2.2	Agreement and Plan of Merger dated April 30, 2010 between Digimarc Corporation, a Delaware corporation, and Digimarc Oregon Corporation, an Oregon corporation (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K, filed with the Commission on May 4, 2010 (File No. 001-34108))
3.1	Articles of Incorporation of Digimarc Corporation (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K, filed with the Commission on May 4, 2010 (File No. 001-34108))
3.2	Bylaws of Digimarc Corporation (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K, filed with the Commission on May 4, 2010 (File No. 001-34108))
4.1	Specimen common stock certificate of Digimarc Corporation (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q, filed with the Commission on July 25, 2014 (File No. 001-34108))
4.2	Rights Agreement, dated July 31, 2008, between Digimarc Corporation and Computershare Trust Company, N.A. as Rights Agent (incorporated by reference to Exhibit 4.2 to the Company's Annual Report on Form 10-K, filed with the Commission on February 27, 2009 (File No. 001-34108))
4.3	Second Amendment of Rights Agreement, effective as of November 5, 2013, made by Digimarc Corporation and acknowledged by Broadridge Corporate Issuer Solutions, Inc., as Rights Agent (incorporated by reference

to Exhibit 4.2 to the Company’s Quarterly Report on Form 10-Q, filed with the Commission on July 25, 2014 (File No. 001-34108))

4.4	Form of Certificate of Designation of Series R Preferred Stock (attached as an exhibit to the Rights Agreement filed as Exhibit 4.2 hereto)
4.5	Form of Rights Certificate (attached as an exhibit to the Rights Agreement filed as Exhibit 4.2 hereto)

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Exhibit Number	Exhibit Description
10.1	License Agreement between DMRC Corporation and L-1 Identity Solutions Operating Company (incorporated by reference to Exhibit 10.2 to Amendment No. 4 to the Company's Registration Statement on Form 10, filed with the Commission on October 2, 2008 (File No. 001-34108))(1)
10.2	Counterfeit Deterrence System Development and License Agreement, dated as of December 6, 2012, between Digimarc Corporation and the Bank for International Settlements (incorporated by reference to Exhibit 10.2 to the Company's amended Annual Report on Form 10-K/A, filed with the Commission on August 7, 2013 (File No. 001-34108))(5)
*10.3	Form of Indemnification Agreement between DMRC Corporation and each of its executive officers and directors (incorporated by reference to Exhibit 10.5 to Amendment No. 2 to the Company's Registration Statement on Form 10, filed with the Commission on August 13, 2008 (File No. 001-34108))
*10.4	Employment Agreement, effective as of November 1, 2014, between Digimarc Corporation and Bruce Davis (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed with the Commission on August 5, 2014 (File No. 001-34108))
*10.5	Digimarc Corporation 2008 Incentive Plan, as amended (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed with the Commission on April 25, 2014 (File No. 001-34108))
*10.6	Form of Notice of Stock Option Award and Stock Option Award Agreement under the Digimarc Corporation 2008 Incentive Plan (incorporated by reference to Exhibit 10.8 to the Company's Quarterly Report on Form 10-Q, filed with the Commission on November 24, 2008 (File No. 001-34108))
*10.7	Equity Compensation Program for Nonemployee Directors under the Digimarc Corporation 2008 Incentive Plan (as amended on February 21, 2011, February 20, 2014 and March 27, 2015) (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed with the Commission on April 28, 2015 (File No. 001-34108))
*10.8	Form of Indemnification Agreement between Digimarc Corporation and each of its executive officers and directors (incorporated by reference to Exhibit 10.1 to Digimarc Corporation's Annual Report on Form 10-K, as filed by Digimarc Corporation with the Securities and Exchange Commission on March 13, 2006 (File No. 000-28317))
*10.9	Form of Change of Control Retention Agreement entered into by and between Digimarc Corporation and each of Messrs. Chamness, Meyer, Beck and Rodriguez (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K, filed with the Commission on February 25, 2016 (File No. 001-34108))
10.10	Patent License Agreement, dated as of June 11, 2009 between Digimarc Corporation and The Nielsen Company (US), LLC (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed with the Commission on July 31, 2009 (File No. 001-34108))(2)
10.11	

Limited Liability Company I Agreement, dated June 11, 2009 between Digimarc Corporation and The Nielsen Company (US), LLC (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q, filed with the Commission on July 31, 2009 (File No. 001-34108))(2)

10.12 Limited Liability Company II Agreement, dated June 11, 2009 between Digimarc Corporation and The Nielsen Company (US), LLC (incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q, filed with the Commission on July 31, 2009 (File No. 001-34108))(2)

10.13 Lease Agreement, dated March 22, 2004, between Digimarc Corporation and PS Business Parks, L.P., as amended on May 13, 2010 (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed with the Commission on July 30, 2010 (File No. 001-34108))

10.14 Second Amendment to Lease, dated July 31, 2015, by and between PD Office Owner 9, L.P. and Digimarc Corporation (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed with the Commission on October 30, 2015 (File No. 001-34108))

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Exhibit Number	Exhibit Description
10.15	Patent License Agreement, effective as of October 5, 2010, between Digimarc Corporation and IV Digital Multimedia Inventions, LLC (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q, filed with the Commission on April 28,2016 (File No. 001-34108))(4)
10.16	Grant-Back License Agreement, dated October 5, 2010, between Digimarc Corporation and IV Digital Multimedia Inventions, LLC (incorporated by reference to Exhibit 10.13 to the Company's Annual Report on Form 10-K, filed with the Commission on March 3, 2011 (File No. 001-34108))(3)
10.17	Patent Rights Agreement, dated October 5, 2010, between Digimarc Corporation and IV Digital Multimedia Inventions, LLC (incorporated by reference to Exhibit 10.14 to the Company's Annual Report on Form 10-K, filed with the Commission on March 3, 2011 (File No. 001-34108))
10.18	Work Agreement, dated October 5, 2010, by and among Digimarc Corporation, Invention Law Group, P.C. and IV Digital Multimedia Inventions, LLC (incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-K, filed with the Commission on April 28, 2016 (File No. 001-34108))(4)
21.1	List of Subsidiaries
23.1	Consent of Independent Registered Public Accounting Firm
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	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Label Linkbase Document

* Management contract or compensatory plan or arrangement.

† Schedules and certain exhibits to this agreement have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Digimarc hereby undertakes to furnish to the Securities and Exchange Commission (the "Commission") copies of the omitted schedules and exhibits upon request by the Commission.

(1) Confidential treatment has been granted for certain portions omitted from this exhibit pursuant to an order granted by the Commission on October 21, 2008, under Rule 24b-2 of the Securities Exchange Act of 1934, as amended. Confidential portions of this exhibit have been separately filed with the Securities and Exchange Commission.

(2) Confidential treatment has been granted for certain portions omitted from this exhibit pursuant to an order granted by the Commission on September 10, 2009, under Rule 24b-2 under the Securities Exchange Act of 1934, as amended. Confidential portions of this exhibit have been separately filed with the Securities and Exchange Commission.

(3) Confidential treatment has been granted for certain portions omitted from this exhibit pursuant to an order granted by the Commission on March 17, 2011, under Rule 24b-2 under the Securities Exchange Act of 1934, as amended. Confidential portions of this exhibit have been separately filed with the Securities and Exchange Commission.

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(4) Confidential treatment has been granted for certain portions omitted from this exhibit pursuant to an order granted by the Commission on May 6, 2016, under Rule 24b-2 under the Securities Exchange Act of 1934, as amended. Confidential portions of this exhibit have been separately filed with the Securities and Exchange Commission.

(5) Confidential treatment has been granted for certain portions omitted from this exhibit pursuant to an order granted by the Commission on September 3, 2013, under Rule 24b-2 under the Securities Exchange Act of 1934, as amended. Confidential portions of this exhibit have been separately filed with the Securities and Exchange Commission.

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