Digimarc CORP
Form 10-Q
November 01, 2018

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number: 001-34108

DIGIMARC CORPORATION

(Exact name of registrant as specified in its charter)

Oregon	26-2828185
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

9405 SW Gemini Drive, Beaverton, Oregon 97008

(Address of principal executive offices) (Zip Code)

(503) 469-4800

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

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

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

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

As of October 26, 2018, there were 11,886,444 shares of the registrant's common stock, par value $0.001 per share, outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.
DIGIMARC CORPORATION

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

(UNAUDITED)

	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 33,775	$ 40,823
Marketable securities	15,640	26,915
Trade accounts receivable, net	2,957	6,404
Other current assets	2,453	2,171
Total current assets	54,825	76,313
Property and equipment, net	4,096	4,236
Intangibles, net	6,602	6,381
Goodwill	1,114	1,114
Other assets	516	326
Total assets	$ 67,153	$ 88,370
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$ 1,576	$ 1,914
Deferred revenue	1,846	3,124
Total current liabilities	3,422	5,038
Deferred rent and other long-term liabilities	887	985
Total liabilities	4,309	6,023
Commitments and contingencies (Note 12)		
Shareholders' equity:		
Preferred stock (par value $0.001 per share, 2,500 authorized, 10 shares issued and outstanding at September 30, 2018 and December 31, 2017)	50	50
Common stock (par value $0.001 per share, 50,000 authorized, 11,888 and 11,651 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively)	12	12

Additional paid-in capital	160,643	155,793
Accumulated deficit	(97,861)	(73,508)
Total shareholders’ equity	62,844	82,347
Total liabilities and shareholders’ equity	$ 67,153	$ 88,370

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

DIGIMARC CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(UNAUDITED)

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Revenue:				
Service	$ 2,787	$ 2,986	$ 9,630	$ 9,935
Subscription	1,532	1,306	4,554	4,171
License	595	4,385	1,781	6,249
Total revenue	4,914	8,677	15,965	20,355
Cost of revenue:				
Service	1,301	1,332	4,412	4,431
Subscription	480	611	1,470	1,701
License	154	129	443	369
Total cost of revenue	1,935	2,072	6,325	6,501
Gross profit	2,979	6,605	9,640	13,854
Operating expenses:				
Sales and marketing	4,741	4,075	14,385	12,064
Research, development and engineering	4,069	4,108	12,074	11,503
General and administrative	2,447	2,442	7,495	7,066
Intellectual property	328	387	948	1,124
Total operating expenses	11,585	11,012	34,902	31,757
Operating loss	(8,606)	(4,407)	(25,262)	(17,903)
Other income, net	273	174	799	408
Loss before income taxes	(8,333)	(4,233)	(24,463)	(17,495)
Benefit (provision) for income taxes	(9)	(7)	(29)	94
Net loss	$ (8,342)	$ (4,240)	$ (24,492)	$ (17,401)
Earnings (loss) per common share:				
Loss per common share — basic	$ (0.73)	$ (0.39)	$ (2.16)	$ (1.67)
Loss per common share — diluted	$ (0.73)	$ (0.39)	$ (2.16)	$ (1.67)
Weighted average common shares outstanding — basic	11,394	10,797	11,333	10,410
Weighted average common shares outstanding — diluted	11,394	10,797	11,333	10,410

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

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DIGIMARC CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS’ EQUITY

(In thousands)

(UNAUDITED)

	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total Shareholders' Equity
BALANCE AT DECEMBER 31, 2016	10	$ 50	10,523	$ 11	$ 120,985	$ (47,712)	$ 73,334
Issuance of common stock, net of issuance costs	—	—	500	—	17,698	—	17,698
Exercise of stock options	—	—	74	—	793	—	793
Issuance of restricted common stock	—	—	308	—	—	—	—
Forfeiture of restricted common stock	—	—	(8)	—	—	—	—
Purchase and retirement of common stock	—	—	(73)	—	(2,063)	—	(2,063)
Stock-based compensation	—	—	—	—	5,048	(25)	5,023
Net loss	—	—	—	—	—	(17,401)	(17,401)
BALANCE AT SEPTEMBER 30, 2017	10	$ 50	11,324	$ 11	$ 142,461	$ (65,138)	$ 77,384
BALANCE AT DECEMBER 31, 2017	10	$ 50	11,651	$ 12	$ 155,793	$ (73,508)	$ 82,347
Exercise of stock options	—	—	82	—	1,064	—	1,064
Issuance of restricted common stock	—	—	233	—	—	—	—
Forfeiture of restricted common stock	—	—	(20)	—	—	—	—
Purchase and retirement of common stock	—	—	(58)	—	(1,689)	—	(1,689)
Stock-based compensation	—	—	—	—	5,475	—	5,475
Cumulative effect of the adoption of the new revenue standard, net of tax	—	—	—	—	—	139	139
Net loss	—	—	—	—	—	(24,492)	(24,492)
BALANCE AT SEPTEMBER 30, 2018	10	$ 50	11,888	$ 12	$ 160,643	$ (97,861)	$ 62,844

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

DIGIMARC CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(UNAUDITED)

	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Cash flows from operating activities:		
Net loss	$ (24,492)	$ (17,401)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and write-off of property and equipment	1,167	1,024
Amortization and write-off of intangibles	437	775
Stock-based compensation	5,345	4,872
Changes in operating assets and liabilities:		
Trade accounts receivable	3,447	(1,952)
Other current assets	(261)	(482)
Other assets	(148)	20
Accounts payable and other accrued liabilities	(374)	373
Deferred revenue	(1,225)	(1,247)
Net cash used in operating activities	(16,104)	(14,018)
Cash flows from investing activities:		
Purchase of property and equipment	(1,023)	(1,424)
Capitalized patent costs	(571)	(625)
Maturity of marketable securities	30,179	41,231
Purchase of marketable securities	(18,904)	(27,631)
Net cash provided by investing activities	9,681	11,551
Cash flows from financing activities:		
Issuance of common stock, net of issuance costs	—	17,698
Exercise of stock options	1,064	793
Purchase of common stock	(1,689)	(2,063)
Net cash provided by (used in) financing activities	(625)	16,428
Net increase (decrease) in cash and cash equivalents	(7,048)	13,961
Cash and cash equivalents at beginning of period	40,823	11,638
Cash and cash equivalents at end of period	$ 33,775	$ 25,599
Supplemental disclosure of cash flow information:		
Cash received (paid) for income taxes, net	$ 92	$ (29)
Supplemental schedule of non-cash investing activities:		
Property and equipment and patent costs in accounts payable	$ (39)	$ 249
Stock-based compensation capitalized to software and patent costs	$ 130	$ 151

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

DIGIMARC CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(In thousands, except per share data)

(UNAUDITED)

1. Description of Business and Significant Accounting Policies

Description of Business

Digimarc Corporation (“Digimarc” or the “Company”), an Oregon corporation, enables governments, banks and businesses around the world to automatically and reliably identify and interact with virtually any media. The Company has pioneered the Digimarc Intuitive Computing Platform (ICP), a comprehensive set of technologies for identifying, discovering and interacting with digitally-enhanced media. The platform includes Digimarc Barcode, a proprietary method for imperceptibly enhancing packaging, print, images, thermal labels, audio and other objects with data that is detected by enabled devices, such as smart phones, computers, barcode scanners and machine-vision equipment. Digimarc Discover software enables an ecosystem of connected devices to easily identify content or materials and deliver information.

Interim Consolidated Financial Statements

Our significant accounting policies are detailed in "Note 1: Description of Business and Summary of Significant Accounting Policies" of our Annual Report on Form 10-K for the year ended December 31, 2017. Significant changes to our accounting policies as a result of adopting Accounting Standards Codification (“ASC”) 606, “Revenue from Contracts with Customers,” effective January 1, 2018, are discussed in Note 3 below.

The accompanying interim consolidated financial statements have been prepared from the Company’s records without audit and, in management’s opinion, include all adjustments (consisting of only normal recurring adjustments) necessary to fairly reflect the financial condition and the results of operations for the periods presented. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) have been condensed or omitted in accordance with the rules and regulations of the U.S. Securities and Exchange Commission (“SEC”).

These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on February 22, 2018. The results of operations for the interim periods presented in these consolidated financial statements are not necessarily indicative of the results for the full year.

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.

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.

Goodwill

The Company tests goodwill for impairment annually in June and whenever events or changes in circumstances indicate that the carrying value may exceed the fair value. The Company operates as a single reporting unit. The Company estimated 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.

Accounting Pronouncements 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 replaces most existing revenue recognition guidance in U.S. GAAP. 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. The guidance permits the use of either the retrospective or cumulative effect transition method. The Company adopted the new standard on January 1, 2018 and elected to use the cumulative effect transition method. Upon adoption, the Company recorded a $139 increase to opening retained earnings to reflect the impact of adopting the new standard using the cumulative effect transition method. The adoption of the standard did not have a material impact on the Company's financial condition, results of operations and cash flows.

Accounting Pronouncements Issued But Not Yet Adopted

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 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 July 2018, the FASB issued ASU No. 2018-11, "Leases (Topic 842) Targeted Improvements," to provide a transition election to not restate comparative periods for the effects of applying the new standard. This transition election permits entities to change the date of initial application to the beginning of the year of adoption and to recognize the effects of applying the new standard as a cumulative-effect adjustment to the opening balance of retained earnings. The Company expects to elect this transition approach and recognize the cumulative impact of adoption in the opening balance of retained earnings as of January 1, 2019. The Company expects the adoption of this standard will have a material impact on its balance sheet as it records its minimum commitments under non-cancelable operating leases on its 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 the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

2. Fair Value of Financial Instruments

The estimated fair values of the Company's financial instruments, which include cash equivalents, accounts receivable, accounts payable and other accrued liabilities approximate their carrying values due to the short-term nature of these instruments. The Company 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 September 30, 2018 and December 31, 2017, respectively, was as follows:

September 30, 2018	Level 1	Level 2	Level 3	Total
Money market securities	$813	$—	$ —	$813
Commercial paper	—	36,094	—	36,094
Corporate notes	—	8,851	—	8,851
Federal agency notes	—	2,010	—	2,010
U.S. treasuries	—	1,004	—	1,004
Total	$813	$47,959	$ —	$48,772

December 31, 2017	Level 1	Level 2	Level 3	Total
Money market securities	$2,197	$—	$ —	$2,197
Commercial paper	—	49,834	—	49,834
Federal agency notes	—	10,715	—	10,715
U.S. treasuries	—	1,996	—	1,996
Corporate notes	—	1,934	—	1,934
Total	$2,197	$64,479	$ —	$66,676

The fair value maturities of the Company’s cash equivalents and marketable securities as of September 30, 2018 are as follows:

	Maturities by Period				
		Less than	1-5	5 - 10	More than
	Total	1 year	years	years	10 years
Cash equivalents and marketable securities	$48,772	$ 48,772	$ —	$ —	$ —

The Company considers all highly liquid marketable securities with original maturities of 90 days or less at the date of acquisition to be cash equivalents. Cash equivalents include commercial paper and money market funds totaling $33,132 and $39,761 at September 30, 2018 and December 31, 2017, respectively. Cash equivalents are carried at cost or amortized cost, which approximates fair value.

3. Revenue Recognition

The Company adopted ASC 606 “Revenue from Contracts with Customers” using the cumulative effect method with a date of initial application of January 1, 2018. Therefore, the comparative period information has not been adjusted and continues to be reported under ASC 605 “Revenue Recognition” and ASC 985 “Software.”

ASC 606

Effective January 1, 2018, revenue is recognized in accordance with ASC 606 by applying the following steps:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize when (or as) the entity satisfies a performance obligation.

The Company derives its revenue primarily from professional services, subscriptions and licensing of its intellectual property. Applicable revenue recognition criteria are considered separately for each performance obligation as follows:

- Service revenue consists primarily of software development and consulting services. The majority of service revenue arrangements are structured as time and materials consulting agreements. 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 includes revenue derived from the sale of Digimarc Discover, Digimarc Barcode and Digimarc Guardian products and services, is generally recurring, paid in advance and recognized over the term of the

subscription, which is generally one to three years.

- License revenue originates primarily from licensing the Company's intellectual property where the Company receives license fees and/or royalties as its income stream. License fees are recognized when the customer has the right to the intellectual property and the license period has begun and royalties are recognized in the quarter in which the royalty was earned.

Some customer arrangements contain multiple performance obligations such as professional services, software licenses, and maintenance and support fees. The Company accounts for individual products and services separately if they are distinct. The consideration is allocated between distinct products and services based on their stand-alone selling prices. For items that are not sold separately, the Company estimates the standalone selling price based on reasonably available information, including market conditions, specific factors affecting the Company, and information about the customer.

ASC 605 and ASC 985

For the comparative periods, revenue was recognized under ASC 605 and ASC 985 when the following four criteria were 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.

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

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

	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Service	$ 2,787	$ 9,630
Subscription		
Digimarc Guardian	904	2,781
Digimarc Discover and Digimarc Barcode	628	1,773
License	595	1,781
Total	$ 4,914	$ 15,965

The Company has contract assets from contracts with customers that are classified as "trade accounts receivable." Financial information about trade accounts receivable is included in Note 8.

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

The following table provides information about contract liabilities from contracts with customers:

	September 30, 2018	December 31, 2017
Deferred revenue, current	$ 1,846	$ 3,124
Deferred revenue, long term	19	42
Total	$ 1,865	$ 3,166

In addition to deferred revenue, the Company has backlog of $30,468 representing the transaction price from contractual obligations that are unsatisfied or partially unsatisfied as of September 30, 2018.

4. 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 United States ("U.S.") and in non-U.S. countries through its sales and licensing personnel and channel partners.

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

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Domestic	$ 1,387	$ 1,153	$ 4,127	$ 3,907
International (1)	3,527	7,524	11,838	16,448
Total	$ 4,914	$ 8,677	$ 15,965	$ 20,355

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

Major Customers

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

	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017		Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Central Banks	62	%	38	%	65	%	52	%
Customer B	0	%	44	%	0	%	22	%

Long-lived assets by geographical area

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

5. Stock-Based Compensation

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

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

Determining Fair Value

Stock Options

Valuation and Amortization Method. The Company estimates the fair value of stock options on the date of grant (measurement date) 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 and vesting schedules of the awards. Stock options granted generally vest over three years 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.

Stock options valuation assumptions:

	Three Months Ended September 30, 2018		Three Months Ended September 30, 2017		Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Expected life (years)	4.50		4.50		4.50		4.50	
Expected volatility	57.11	%	57.24	%	57.11	%	57.24	%
Risk-free interest rate	2.77	%	1.77	%	2.77	%	1.77	%
Expected dividend yield	0	%	0	%	0	%	0	%

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. Restricted stock awards granted generally vest over three to four years for employee grants and one to three years for director grants.

Stock-based Compensation

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Stock-based compensation:				
Cost of revenue	$ 134	$ 170	$ 456	$ 521
Sales and marketing	442	364	1,198	1,074
Research, development and engineering	367	379	1,015	1,041
General and administrative	846	784	2,461	1,994
Intellectual property	76	82	215	242
Stock-based compensation expense	1,865	1,779	5,345	4,872
Capitalized to software and patent costs	37	53	130	151
Total stock-based compensation	$ 1,902	$ 1,832	$ 5,475	$ 5,023

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

	As of September 30, 2018	As of December 31, 2017
Total unrecognized compensation costs	$ 16,034	$ 13,669

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

The Company expects to recognize the total unrecognized compensation costs as of September 30, 2018 for stock options and restricted stock over weighted average periods through September 2022 as follows:

	Stock Options	Restricted Stock
Weighted average period	1.34 years	1.45 years

As of September 30, 2018, under all of the Company's stock-based compensation plans, equity awards to purchase an additional 1,678 shares were authorized for future grants under the plans. The Company issues new shares upon option exercises.

Stock Option Activity

The following table reconciles the outstanding balance of stock options:

Three months ended September 30, 2018:	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Outstanding at June 30, 2018	443	$ 27.13	$ 12.37	
Granted	100	29.55	14.46	
Exercised	(10)	14.99	8.12	
Forfeited or expired	—	—	—	
Outstanding at September 30, 2018	533	$ 27.81	$ 12.84	$ 1,938

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Nine months ended September 30, 2018:	Options	Weighted Average Exercise Price	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Outstanding at December 31, 2017	515	$ 25.13	$ 11.64	
Granted	100	29.55	14.46	
Exercised	(82)	13.05	7.26	
Forfeited or expired	—	—	—	
Outstanding at September 30, 2018	533	$ 27.81	$ 12.84	$ 1,938
Exercisable at September 30, 2018	300	$ 26.04		$ 1,621
Unvested at September 30, 2018	233	$ 30.09		$ 317

The aggregate intrinsic value is based on the closing price of $31.45 per share of Digimarc common stock on September 30, 2018, which would have been received by the optionees had all of the options with exercise prices less than $31.45 per share been exercised on that date.

Restricted Stock Activity

The following table reconciles the unvested balance of restricted stock:

Three months ended September 30, 2018:	Number of Shares	Weighted Average Grant Date Fair Value
Unvested balance, June 30, 2018	505	$ 29.02
Granted	23	$ 28.80
Vested	(50)	$ 28.86
Forfeited	(1)	$ 29.92
Unvested balance, September 30, 2018	477	$ 29.03

Nine months ended September 30, 2018:	Number of Shares	Weighted Average Grant Date Fair Value
Unvested balance, December 31, 2017	426	$ 28.44
Granted	233	$ 29.97
Vested	(162)	$ 28.85
Forfeited	(20)	$ 28.92
Unvested balance, September 30, 2018	477	$ 29.03

The following table indicates the fair value of all restricted stock awards that vested during the three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Fair value of restricted stock awards vested	$ 1,432	$ 1,669	$ 4,704	$ 5,160

6. Shareholders' Equity

In June 2017, the Company sold 500 shares of its common stock in a registered direct offering to a certain investor at a price of $35.55 per share. The offering was made without an underwriter or placement agent. The Company received $17,775 of cash proceeds from the offering, and paid $72 in stock issuance costs.

In November 2017, the Company sold 331 shares of its common stock in a registered direct offering to a certain investor at a price of $36.25 per share. The offering was made without an underwriter or placement agent. The Company received $12,000 of cash proceeds from the offering, and paid $21 in stock issuance costs.

7. 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.

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 three and nine months ended September 30, 2018 and 2017:

	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
Basic Earnings (Loss) per Common Share:				
Numerator:				
Net loss	$ (8,342)	$ (4,240)	$ (24,492)	$ (17,401)
Distributed earnings to common shares	—	—	—	—
Distributed earnings to participating securities	—	—	—	—
Total distributed earnings	—	—	—	—
Undistributed loss allocable to common shares	(8,342)	(4,240)	(24,492)	(17,401)
Undistributed earnings allocable to participating securities	—	—	—	—
Total undistributed loss	(8,342)	(4,240)	(24,492)	(17,401)
Loss to common shares — basic	$ (8,342)	$ (4,240)	$ (24,492)	$ (17,401)
Denominator				
Weighted average common shares outstanding — basic	11,394	10,797	11,333	10,410
Basic earnings (loss) per common share	$ (0.73)	$ (0.39)	$ (2.16)	$ (1.67)

Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30,	Nine Months Ended September 30,