Digimarc CORP
Form 10-Q
July 27, 2017

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

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 and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted 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 and post 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 (Do not check if a smaller reporting company)	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 July 21, 2017, there were 11,267,308 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)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$34,242	$ 11,638
Marketable securities	33,513	44,496
Trade accounts receivable, net	3,897	5,078
Other current assets	1,858	1,695
Total current assets	73,510	62,907
Marketable securities	—	4,392
Property and equipment, net	3,846	3,570
Intangibles, net	6,416	6,422
Goodwill	1,114	1,114
Other assets	281	331
Total assets	$85,167	$ 78,736
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and other accrued liabilities	$1,731	$ 1,523
Deferred revenue	2,121	2,923
Total current liabilities	3,852	4,446
Deferred rent and other long-term liabilities	1,029	956
Total liabilities	4,881	5,402
Commitments and contingencies (Note 13)		
Shareholders' equity:		
Preferred stock (par value $0.001 per share, 2,500 authorized, 10 shares issued and outstanding at June 30, 2017 and December 31, 2016)	50	50
Common stock (par value $0.001 per share, 50,000 authorized, 11,263 and 10,523 shares issued and outstanding at June 30, 2017 and December 31, 2016, respectively)	11	11

Additional paid-in capital	141,123	120,985
Accumulated deficit	(60,898)	(47,712)
Total shareholders’ equity	80,286	73,334
Total liabilities and shareholders’ equity	$85,167	$ 78,736

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

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DIGIMARC CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(UNAUDITED)

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Revenue:				
Service	$3,253	$3,148	$6,949	$6,398
Subscription	1,420	1,494	2,865	2,957
License	914	815	1,864	1,682
Total revenue	5,587	5,457	11,678	11,037
Cost of revenue:				
Service	1,464	1,401	3,099	2,833
Subscription	534	594	1,090	1,256
License	122	99	240	195
Total cost of revenue	2,120	2,094	4,429	4,284
Gross profit	3,467	3,363	7,249	6,753
Operating expenses:				
Sales and marketing	3,997	2,856	7,989	5,811
Research, development and engineering	3,936	3,379	7,395	6,684
General and administrative	2,239	1,976	4,624	4,146
Intellectual property	345	462	737	896
Total operating expenses	10,517	8,673	20,745	17,537
Operating loss	(7,050)	(5,310)	(13,496)	(10,784)
Other income, net	116	42	234	88
Loss before income taxes	(6,934)	(5,268)	(13,262)	(10,696)
Benefit (provision) for income taxes	(9)	(15)	101	(22)
Net loss	$(6,943)	$(5,283)	$(13,161)	$(10,718)
Earnings (loss) per common share:				
Loss per common share—basic	(0.68)	$(0.62)	(1.29)	$(1.25)
Loss per common share—diluted	(0.68)	$(0.62)	(1.29)	$(1.25)
Weighted average common shares outstanding—basic	10,266	8,587	10,214	8,560
Weighted average common shares outstanding—diluted	10,266	8,587	10,214	8,560

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		Common Stock		Additional Paid-in Capital	Retained Earnings (Accumulated Deficit)	Total Shareholders' Equity
	Shares	Amount	Shares	Amount			
BALANCE AT DECEMBER 31, 2015	10	$ 50	8,919	$ 9	$ 77,439	$ (26,040)	$ 51,458
Exercise of stock options	—	—	32	—	309	—	309
Issuance of restricted common stock	—	—	177	—	—	—	—
Forfeiture of restricted common stock	—	—	(3)	—	—	—	—
Purchase and retirement of common stock	—	—	(40)	—	(1,104)	—	(1,104)
Stock-based compensation	—	—	—	—	2,782	—	2,782
Net loss	—	—	—	—	—	(10,718)	(10,718)
BALANCE AT JUNE 30, 2016	10	$ 50	9,085	$ 9	$ 79,426	$ (36,758)	$ 42,727
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	—	17,702	—	17,702
Exercise of stock options	—	—	59	—	568	—	568
Issuance of restricted common stock	—	—	236	—	—	—	—
Forfeiture of restricted common stock	—	—	(7)	—	—	—	—
Purchase and retirement of common stock	—	—	(48)	—	(1,348)	—	(1,348)
Stock-based compensation	—	—	—	—	3,216	(25)	3,191
Net loss	—	—	—	—	—	(13,161)	(13,161)
BALANCE AT JUNE 30, 2017	10	$ 50	11,263	$ 11	$ 141,123	$ (60,898)	$ 80,286

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

DIGIMARC CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(UNAUDITED)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities:		
Net loss	$(13,161)	$(10,718)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation, amortization and write-off of property and equipment	664	688
Amortization and write-off of intangibles	486	639
Stock-based compensation	3,093	2,707
Changes in operating assets and liabilities:		
Trade accounts receivable	1,181	2,139
Other current assets	(163)	52
Other assets	50	36
Accounts payable and other accrued liabilities	336	109
Deferred revenue	(835)	(917)
Net cash used in operating activities	(8,349)	(5,265)
Cash flows from investing activities:		
Purchase of property and equipment	(938)	(755)
Capitalized patent costs	(406)	(436)
Maturity of marketable securities	28,636	22,467
Purchase of marketable securities	(13,261)	(8,819)
Net cash provided by investing activities	14,031	12,457
Cash flows from financing activities:		
Issuance of common stock, net of issuance costs	17,702	—
Exercise of stock options	568	309
Purchase of common stock	(1,348)	(1,104)
Net cash provided by (used) in financing activities	16,922	(795)
Net increase in cash and cash equivalents	22,604	6,397
Cash and cash equivalents at beginning of period	11,638	3,160
Cash and cash equivalents at end of period	$34,242	$9,557
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net	$25	$14
Supplemental schedule of non-cash investing activities:		

Property and equipment and patent costs in accounts payable	$(22)	$61
Stock-based compensation capitalized to software and patent costs	$98	$75

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

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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 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 Digimarc Discover®, Digimarc Barcode and the 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.

Interim Consolidated Financial Statements

The Company has adhered to the accounting policies set forth in its Annual Report on Form 10-K for the year ended December 31, 2016 in preparing the accompanying interim consolidated financial statements.

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, 2016, which was filed with the SEC on February 23, 2017. 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.

In connection with the Company’s annual impairment test of goodwill as of June 30, 2017 and 2016, it was concluded that there was no impairment to goodwill as the estimated fair value of the Company’s reporting unit substantially exceeded the carrying value.

Accounting Pronouncements Adopted

In March 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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. Any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. The Company adopted the provisions of this standard effective January 1, 2017. On adoption, deferred tax assets of $6,219 was recorded for previously unrecognized excess tax benefits as of December 31, 2016, which was offset by $6,219 of valuation allowance. Future excess tax benefits will be recognized in the income tax provision when realized and would be offset by any required valuation allowance. The Company will no longer apply a forfeiture rate to share-based payment awards and instead account for forfeitures when they occur. This policy election resulted in a $25 adjustment to opening retained earnings. The Company also provided employees the option to elect the minimum or the maximum statutory tax-withholding rate to be applied on the exercise or vesting of share-based awards. The adoption of the standard did not have a material impact on the Company’s financial condition, results of operations, cash flows and disclosures.

In January 2017, the FASB issued ASU No. 2017-04, “Intangibles – Goodwill and Other (Topic 350).” ASU No. 2017-04 simplifies the subsequent measurement of goodwill by removing the second step of the two-step impairment test. The amendment requires an entity to perform its annual, or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. The amendments in this update are effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 31, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company elected to early adopt the amendments of this standard effective January 1, 2017. The early adoption of this standard resulted in no impact on the Company’s financial condition, results of operations, cash flows and disclosures.

Accounting Pronouncements Issued But Not Yet Adopted

In May 2014, the FASB issued 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. Early adoption 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 aside from expanded disclosures; 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 all of its subscription revenue streams 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 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, 2016.

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 be applied 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. 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 June 30, 2017 and December 31, 2016, respectively, was as follows:

June 30, 2017	Level 1	Level 2	Level 3	Total
Money market securities	$561	$—	$ —	$561
Commercial paper	—	30,776	—	30,776
Federal agency notes	—	20,090	—	20,090
Corporate notes	—	7,826	—	7,826
Pre-refunded municipal bonds (1)	—	2,509	—	2,509
Total	$561	$61,201	$ —	$61,762

December 31, 2016	Level 1	Level 2	Level 3	Total
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

(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 June 30, 2017 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	$61,762	$ 61,762	$ —	$ —	$ —

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 money market funds and commercial paper totaling $28,249 and $10,881 at June 30, 2017 and December 31, 2016, respectively. Cash equivalents are carried at cost or amortized cost, which approximates fair value.

3. 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 allocates any discount in the arrangement proportionally to each deliverable on the basis of each deliverable's selling price.

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 is 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.

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 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:

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Domestic	$ 1,253	$ 1,151	$ 2,754	$ 2,284
International (1)	4,334	4,306	8,924	$ 8,753
Total	$ 5,587	$ 5,457	$ 11,678	$ 11,037

(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

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

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Central Banks	63 %	63 %	63 %	63 %

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 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

The Company estimates the fair value of stock options granted using the Black-Scholes option valuation model. The fair value of stock options is determined on the date of the grant (measurement date), and is amortized on a straight-line method over the requisite service periods, which are generally the vesting periods.

There were no stock options granted during the three and six months ended June 30, 2017 and 2016.

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.

Stock-based Compensation

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Stock-based compensation:				
Cost of revenue	$ 175	$ 184	$ 351	$ 357
Sales and marketing	342	238	710	450
Research, development and engineering	354	379	662	704
General and administrative	637	544	1,210	1,045
Intellectual property	82	79	160	151
Stock-based compensation expense	1,590	1,424	3,093	2,707
Capitalized to software and patent costs	53	43	98	75
Total stock-based compensation	$ 1,643	$ 1,467	$ 3,191	