



**Linus Technologies Limited**  
**www.linus.com**  
**(ASX: LNU)**

**31 July 2017**

**ASX Announcement**

## **QUARTERLY REPORT – JUNE 2017**

### **Highlights**

- Village Roadshow invests in Linus
- IBM & Linus collaborate to market and promote Linus VVE
- Kevin Kyer appointed to lead the Search Division
- Ken Ruck appointed to lead the Personalized Advertising Division
- Cash balance of \$0.96 million

**Linus Technologies Limited (ASX : LNU)** (“**Linus**” or “**Company**”) is pleased to present its June 2017 Quarterly Report on business progress.

### **CORPORATE**

#### **Appendix 4C Quarterly Report and statement of cash flows**

The ASX Appendix 4C Quarterly Report for June 2017 is attached to and lodged with this report. The Appendix 4C Quarterly Report covers the 3 month period to 30 June 2017 and reflects the net cash outflows incurred by the Company while pursuing its technology development, marketing activities and now its commercialization plans and objectives.

The cash balance at 30 June 2017 was \$0.96 million, following the June 2017 quarter operational cash burn of \$0.99 million.

#### **Private Placement to Village Roadshow, subsequent to quarter end.**

Subsequent to quarter end Linus raised \$1.5m through a private placement of \$1m to Village Roadshow and \$0.5m to Kirby family interests. The \$1.5 million placement comprised the issue of 30 million ordinary shares at an issue price of \$0.05 per share.

Linus is pleased that Village Roadshow has decided to back the business with direct investment, having followed the Linus story closely and recognizing the many applications for the technology across the video industry.

Village Roadshow has long been a leading voice in tackling global piracy and is particularly interested in the anti-piracy solutions that Linus is developing. Village Roadshow and Linus are actively working together to introduce its technology to the industry in the hope of reducing global piracy.

Linus expects to use the net proceeds of the private placement to accelerate its commercialization activities.

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## **OPERATIONS**

The Linus commercialization plans are on target. Linus' primary objective is to rapidly scale the use of Linus VVE across our four target business sectors.

### **IBM collaboration agreement**

A key element of our strategy to achieve scale is the global roll out plan with IBM. IBM is a perfect partner for Linus from both a technology and sales perspective. During the quarter Linus was pleased to announce the commencement of our collaboration agreement with IBM to promote and sell the Linus Video Virtualization Engine™ (Linus VVE), including building onto the IBM Bluemix platform, to IBM's extensive network of corporate clients and beyond in Linus' target market sectors.

This collaboration agreement provides for the joint promotion and marketing of the Linus VVE (including presales support) and submission of proposals for selling the Linus VVE to targeted customers as a standalone or integrated offering with IBM products.

Linus will build and offer the Linus VVE on IBM Bluemix and IBM's cloud platform. IBM Bluemix weaves together services, infrastructure and data to help businesses bring their ideas into production quickly. Linus will work with IBM technology solutions to enhance the Linus VVE with IBM products and then promote and market these across all four of Linus' target market sectors. This will include virtualization hosted on the IBM Cloud, personalized advertising, anti-piracy, security and surveillance.

### **Commercialization Plans**

During the June 2017 quarter the company commenced pursuing its near term commercialisation plans in the four key sectors being targeted.

#### **1. Personalised Advertising**

In June the company announced the appointment of Ken Ruck to the post of executive vice president to lead the Personalized Advertising Division of Linus.

Ken joins Linus from Kodak where he served as Chief Innovation Officer working on new digital products with a focus on advanced development of video image recognition and artificial intelligence systems.

Ken reports to the CEO, Chris Richardson and will lead this core industry division in its mission to revolutionize and unlock the vast potential of personalized advertising. By virtualizing video, Linus unlocks the raw data of video, enabling:

- Targeted, personalized advertising for cable companies, for the first time
- AI enhanced personal viewing experiences
- Deep analytics for advertisers, broadcasters, and cable operators
- Programmatic content and advertising creation for IP-TV and OTT digital-media broadcasters

The Personalized Advertising Division targets the broad ecosystem of Internet-based advertising, which includes small and large cable-TV operators and multi-service operators (MSOs), mobile-network operators, broadcasters, advertisers, and media agencies.

Linius envisions that video virtualization will impact each of these sub-industries, unlocking deep viewer analytics across the value chain and enable enhanced personalized advertising, driving revenue and increasing user engagement.

## **2. Search**

In May 2017 Linius announced the appointment of former Yahoo director, Kevin Kyer, as the company's Executive Vice President the Search Division. The Search division utilises the VVE to enhance search returns, stitching video together on the fly to provide much better search results and therefore much greater monetisation opportunities for search engine providers.

As EVP, Search, Kyer will Report to the CEO and lead all commercial activity for this core division across a broad spectrum of industries in which hyper-personalized video search results can unlock tremendous untapped potential for both enterprises and consumers. The ground-breaking capability of granular, frame-by-frame, search identification of video content, along with the ability to deliver it in personalized formats, promises to introduce a bold new era of video search.

Kevin's scope will go well beyond established, search-engine giants like Google. The Search Division will also target social media companies that are increasingly focused on video, and traditional enterprises with large, latent video catalogs that they struggle to exhume, share and monetize, such as news agencies and TV stations.

Building on the foundation of VVE Play, which Linius launched in calendar Q1 as a showcase of video-virtualization demonstrating both scalability and the ability to manipulate tagged videos, the Search Division is pursuing the use of artificial intelligence (AI) combined with video virtualization to provide relevant, monetisable videos to both viewers and businesses.

## **3. Anti-Piracy**

The Media Security division is focussed on reducing global piracy and securing revenues for content owners.

The Global box office market is worth over \$US38 billion per annum,<sup>1</sup> but according to academic research the box office alone loses somewhere between 15%<sup>2</sup> (\$6.7 billion US) and 40%<sup>3</sup> (\$15 billion) per year from piracy.

Video piracy occurs in four ways: industrial espionage (stealing originals from the studio or producers before release), hijacking of Internet streams, cracking copy protection on downloaded files, and screen scraping (or camcording). Linius Virtual Video Anti-Piracy solution addresses all four of these, either stopping them completely, or enabling tracking of the theft back to the original thief (as opposed to current tracking mechanisms, which are focused on consumers of stolen content).

The placement to Village Roadshow and support from Village for Linius to pursue its anti-piracy solutions will greatly expedite our commercialisation in this industry segment.

## **4. Security and Defence**

This division provides capability that dramatically increases response times for government agencies and corporations tasked with surveillance and threat management.

The video surveillance market is growing at 16.56% and is expected to reach \$71 billion US by 2022.<sup>4</sup>

Linius VVE facilitates speed to actionable intelligence for municipalities, defense, and intelligence agencies.

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<sup>1</sup> <http://variety.com/2017/film/box-office/2016-global-box-office-1201968877/>

<sup>2</sup> [https://papers.ssrn.com/sol3/papers2.cfm?abstract\\_id=2736946](https://papers.ssrn.com/sol3/papers2.cfm?abstract_id=2736946)

<sup>3</sup> <https://www.quora.com/How-much-income-does-the-film-industry-lose-to-piracy>

<sup>4</sup> <http://www.marketsandmarkets.com/Market-Reports/video-surveillance-market-645.html>



## **Research and Development**

R&D in the June Quarter has focused on creation of solutions addressing the four divisions in conjunction with IBM. In broad terms, the solutions entail

- Creation of public and private APIs
- HTML5 support
- Software development kits for set-top-boxes and OTT players
- Artificial-intelligence integration
- Optical-recognition computation integration

Core research and patent activities are focused around blockchain and forensic watermarking.

### **Patents:**

As Linus develops and extends its technology capability the company continues to identify opportunities for new patents. Working with US patent firm Womble Carlyle, Linus is pursuing additional patents around aspects of the software relevant to all four business divisions. Whilst the process to granting the patent can take many quarters, Linus is keen to extend its patent portfolio around the already granted core patent and expect more patent applications to be made in the near future.

### **About Linus Technologies Limited**

Linus Technologies Limited (ASX: LNU) is a developer of disruptive video technology.

Linus' patented Video Virtualization Engine™ converts cumbersome, legacy video into interactive, virtual video.

Linus seeks to commercialise its patented Video Virtualization Engine™ — cut costs and boost revenues across the multi-billion dollar video industry.

Linus has the potential to transform many market segments and is initially focused on 1. Delivering personalised advertising solutions for broadcasters, 2. video security and reduced piracy, 3. enhancing search engine monetisation, and 4. security-service applications.

### **For more information, please contact:**

**Chris Richardson, Chief Executive Officer**

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## Appendix 4C

### Quarterly report for entities subject to Listing Rule 4.7B

Introduced 31/03/00 Amended 30/09/01, 24/10/05, 17/12/10, 01/09/16

**Name of entity**

Linius Technologies Limited

**ABN**

84 149 796 332

**Quarter ended ("current quarter")**

30 June 2017

<b>Consolidated statement of cash flows</b>	<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
<b>1. Cash flows from operating activities</b>		
1.1 Receipts from customers	-	-
1.2 Payments for		
(a) research and development	(257)	(894)
(b) product manufacturing and operating costs	-	-
(c) advertising and marketing	(234)	(609)
(d) leased assets	-	-
(e) staff and consultant costs	(255)	(756)
(f) administration, travel and corporate costs	(195)	(534)
1.3 Dividends received (see note 3)		
1.4 Interest received	10	47
1.5 Interest and other costs of finance paid		
1.6 Income taxes paid		
1.7 Government grants and tax incentives		
1.8 Other – legal & patent costs	(61)	(306)
<b>1.9 Net cash from / (used in) operating activities</b>	<b>(992)</b>	<b>(3,052)</b>
<b>2. Cash flows from investing activities</b>		
2.1 Payments to acquire:		
(a) property, plant and equipment		
(b) businesses (see item 10)		
(c) investments		

Consolidated statement of cash flows	Current quarter \$A'000	Year to date (12 months) \$A'000
(d) intellectual property		
(e) other non-current assets		
2.2 Proceeds from disposal of:		
(a) property, plant and equipment		
(b) businesses (see item 10)		
(c) investments		
(d) intellectual property		
(e) other non-current assets		
2.3 Cash flows from loans to other entities		
2.4 Dividends received (see note 3)		
2.5 Other (provide details if material)		
<b>2.6 Net cash from / (used in) investing activities</b>	-	-

<b>3. Cash flows from financing activities</b>		
3.1 Proceeds from issues of shares	-	761
3.2 Proceeds from issue of convertible notes		
3.3 Proceeds from exercise of share options		
3.4 Transaction costs related to issues of shares, convertible notes or options	-	(25)
3.5 Proceeds from borrowings		
3.6 Repayment of borrowings		
3.7 Transaction costs related to loans and borrowings		
3.8 Dividends paid		
3.9 Other (provide details if material)		
<b>3.10 Net cash from / (used in) financing activities</b>	-	736

<b>4. Net increase / (decrease) in cash and cash equivalents for the period</b>		
4.1 Cash and cash equivalents at beginning of quarter/year to date	1,951	3,275
4.2 Net cash from / (used in) operating activities (item 1.9 above)	(992)	(3,052)
4.3 Net cash from / (used in) investing activities (item 2.6 above)	-	-
4.4 Net cash from / (used in) financing activities (item 3.10 above)	-	736

<b>Consolidated statement of cash flows</b>		<b>Current quarter \$A'000</b>	<b>Year to date (12 months) \$A'000</b>
4.5	Effect of movement in exchange rates on cash held	-	-
<b>4.6</b>	<b>Cash and cash equivalents at end of quarter</b>	<b>959</b>	<b>959</b>

<b>5.</b>	<b>Reconciliation of cash and cash equivalents</b> at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts	<b>Current quarter \$A'000</b>	<b>Previous quarter \$A'000</b>
5.1	Bank balances	245	183
5.2	Call deposits	664	243
5.3	Bank overdrafts	-	-
5.4	Other – term deposits	50	1,525
<b>5.5</b>	<b>Cash and cash equivalents at end of quarter (should equal item 4.6 above)</b>	<b>959</b>	<b>1,951</b>

**6. Payments to directors of the entity and their associates**

- 6.1 Aggregate amount of payments to these parties included in item 1.2
- 6.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 6.3 Include below any explanation necessary to understand the transactions included in items 6.1 and 6.2

<b>Current quarter \$A'000</b>
95
-

Amounts in item 6.1 relate to remuneration of directors.

**7. Payments to related entities of the entity and their associates**

- 7.1 Aggregate amount of payments to these parties included in item 1.2
- 7.2 Aggregate amount of cash flow from loans to these parties included in item 2.3
- 7.3 Include below any explanation necessary to understand the transactions included in items 7.1 and 7.2

<b>Current quarter \$A'000</b>
-
-

**8. Financing facilities available**

*Add notes as necessary for an understanding of the position*

Total facility amount at quarter end \$A'000	Amount drawn at quarter end \$A'000
-	-
-	-
-	-

8.1 Loan facilities

8.2 Credit standby arrangements

8.3 Other (please specify)

8.4 Include below a description of each facility above, including the lender, interest rate and whether it is secured or unsecured. If any additional facilities have been entered into or are proposed to be entered into after quarter end, include details of those facilities as well.

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**9. Estimated cash outflows for next quarter**

**\$A'000**

9.1	Research and development	250
9.2	Product manufacturing and operating costs	590
9.3	Advertising and marketing	250
9.4	Leased assets	-
9.5	Staff and consultant costs	220
9.6	Administration, travel and corporate costs	210
9.7	Other – legal & patent costs	70
<b>9.8</b>	<b>Total estimated cash outflows</b>	<b>1,590</b>

<b>10. Acquisitions and disposals of business entities (items 2.1(b) and 2.2(b) above)</b>	<b>Acquisitions</b>	<b>Disposals</b>
10.1 Name of entity		
10.2 Place of incorporation or registration		
10.3 Consideration for acquisition or disposal		
10.4 Total net assets		
10.5 Nature of business		

### Compliance statement

- 1 This statement has been prepared in accordance with accounting standards and policies which comply with Listing Rule 19.11A.
- 2 This statement gives a true and fair view of the matters disclosed.

Sign here:



(Company secretary)

Date: 31 July 2017

Print name: Stephen Kerr

### Notes

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity that wishes to disclose additional information is encouraged to do so, in a note or notes included in or attached to this report.
2. If this quarterly report has been prepared in accordance with Australian Accounting Standards, the definitions in, and provisions of, *AASB 107: Statement of Cash Flows* apply to this report. If this quarterly report has been prepared in accordance with other accounting standards agreed by ASX pursuant to Listing Rule 19.11A, the corresponding equivalent standard applies to this report.
3. Dividends received may be classified either as cash flows from operating activities or cash flows from investing activities, depending on the accounting policy of the entity.