

DIGIMARC CORP
Form DEF 14A
March 12, 2008

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

DIGIMARC CORPORATION

(Name of Registrant as Specified In Its Charter)

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- No fee required.
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(4) Date Filed:

DIGIMARC CORPORATION
9405 S.W. Gemini Drive
Beaverton, Oregon 97008

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 1, 2008

To the Stockholders of Digimarc Corporation:

Notice is hereby given that the 2008 Annual Meeting of Stockholders (the "Annual Meeting") of Digimarc Corporation, a Delaware corporation ("Digimarc"), will be held on Thursday, May 1, 2008 at the headquarters of Digimarc Corporation, 9405 S.W. Gemini Drive, Beaverton, Oregon 97008, at 11:00 a.m., local time. The purposes of the Annual Meeting will be:

- 1. Election of Directors.** To elect three Class III directors, to hold office until the 2011 Annual Meeting of Stockholders or until their successors are elected and qualified (Proposal No. 1);
- 2. Ratification of Appointment of Independent Registered Public Accounting Firm.** To ratify the appointment of Grant Thornton LLP as Digimarc's independent registered public accounting firm for the year ending December 31, 2008 (Proposal No. 2); and
- 3. Other Business.** To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice. The Board of Directors has fixed the close of business on March 3, 2008 as the record date for determining the stockholders entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement thereof.

This year we are furnishing proxy materials to our stockholders over the Internet. You may read, print and download our annual report and proxy statement at the Investor Relations section of our website at www.digimarc.com/investors. On or about March 17, 2008, we will mail our stockholders a notice containing instructions on how to access our 2008 proxy statement and annual report via the Internet and vote online. The notice also provides instruction on how you can request a paper copy of these documents if you desire, and how you can enroll in e-delivery to receive future annual materials via email.

Whether or not you expect to attend the Annual Meeting in person, we urge you to vote your shares as directed in the proxy card for the Annual Meeting as promptly as possible to ensure your representation and the presence of a quorum at the Annual Meeting. If you subsequently decide to attend the Annual Meeting to vote your shares in person, you may still do so. Your proxy is revocable in accordance with the procedures set forth in the Proxy Statement.

By Order of the Board of Directors,

Bruce Davis
Chairman of the Board of Directors and
Chief Executive Officer

Beaverton, Oregon
March 12, 2008

**DIGIMARC CORPORATION
PROXY STATEMENT FOR 2008 ANNUAL MEETING OF STOCKHOLDERS**

General Information

Digimarc Corporation ("Digimarc," "we" or "our") expects to provide notice and electronic delivery of this proxy statement and the enclosed proxy to our stockholders, on or about March 17, 2008, in connection with our solicitation through our Board of Directors of proxies for use in voting at the Digimarc Annual Meeting of Stockholders (the "Annual Meeting") to be held on Thursday, May 1, 2008, at 11:00 a.m., local time, at our headquarters, located at 9405 S.W. Gemini Drive, Beaverton, Oregon 97008, and any adjournment or postponement of the Annual Meeting. The shares represented by the proxies received, properly marked, dated, executed and not revoked will be voted at the Annual Meeting by the proxy holders designated on the proxy.

The Board has fixed the close of business on March 3, 2008 as the record date (the "Record Date") for determining the stockholders entitled to notice of, and to vote at, the Annual Meeting. As of the close of business on the Record Date, 22,041,002 shares of our common stock, \$0.001 par value per share, were outstanding and entitled to vote at the Annual Meeting.

Each outstanding share of common stock on the Record Date is entitled to one vote on all matters. The required quorum for the Annual Meeting is a majority of the shares outstanding, present either in person or by proxy, on the Record Date. There must be a quorum for the Annual Meeting to be held. Our Inspector of Elections will tabulate votes cast by proxy or in person at the Annual Meeting.

Internet Availability of Proxy Materials

This year, we have voluntarily elected to take advantage of recent Securities and Exchange Commission ("SEC") rules that allow us to (i) mail our stockholders a Notice of Internet Availability of Proxy Materials and a proxy card, (ii) provide access to our proxy materials on our website, and (iii) mail a printed copy of the proxy materials to any stockholder who requests it. Next year, we will be required to comply with these rules. Our proxy materials include this Proxy Statement and our Annual Report to Stockholders for the year ended December 31, 2007, which includes our Form 10-K and audited financial statements. If you requested a printed version of our proxy materials, these materials also include the proxy card for the Annual Meeting.

The Notice of Internet Availability of Proxy Materials provides instructions on how to view our proxy materials for the Annual Meeting at our website and, if desired, instruct us to send you future proxy materials electronically via email. Choosing to receive your future proxy materials by email will save us the cost of printing and mailing documents to you. If you choose to receive future proxy materials by email, you will receive an email next year with instructions containing a link to those materials and a link to the proxy voting site. Your election to receive proxy materials by email will remain in effect until you terminate it.

Revocability of Proxy

You may revoke your proxy and change your vote at any time prior to voting at the Annual Meeting by:

delivering to Digimarc (to the attention of Robert P. Chamness, our Secretary) a written notice of revocation or a duly executed proxy bearing a later date; or

attending the Annual Meeting and voting in person.

Solicitation

Digimarc will bear the cost of soliciting proxies. Besides this solicitation by mail, our directors, officers and other employees may solicit proxies. These persons will not receive any additional compensation for assisting in the solicitation. We will also request brokerage firms, nominees, custodians and fiduciaries to forward proxy materials to the beneficial owners. We will reimburse these persons and our transfer agent for their reasonable out-of-pocket expenses in forwarding these materials. We may also retain the services of a proxy solicitation or information agent and/or mailing service to perform the broker nominee search and to distribute proxy materials to banks, brokers, nominees and intermediaries, for which we would not pay more than \$10,000.

Vote Required: Treatment of Abstentions and Broker Non-Votes

Directors are elected by a plurality of the votes cast, provided that a majority of the shares of common stock are present or represented and entitled to vote at the Annual Meeting. The three candidates who receive the greatest number of votes will be elected directors.

The ratification of the appointment of our independent registered public accounting firm for the fiscal year ending December 31, 2008 requires the affirmative vote of a majority of the shares of common stock present or represented and entitled to vote at the Annual Meeting.

Abstentions are shares that abstain from voting on a particular matter. Under the Delaware General Corporation Law, abstentions effectively count as being present for purposes of determining whether a quorum of shares is present at a meeting.

Abstentions have no effect on Proposal No. 1, the election of directors. Because abstentions will be included in tabulations of the shares entitled to vote for purposes of determining whether a proposal has been approved, abstentions have the same effect as negative votes on Proposal No. 2, the ratification of the selection of our independent registered public accounting firm.

Broker non-votes occur when shares are held in "street name" by brokers or nominees who indicate on their proxies that they did not receive voting instructions from the beneficial owner of the shares and do not have discretionary authority to vote such shares as to a particular matter. Under the Delaware General Corporation Law, broker non-votes count as being present for purposes of determining whether a quorum of shares is present at a meeting but are not counted for purposes of determining the number of votes cast for or against a proposal. Broker non-votes have no effect on Proposal No. 1, the election of directors because directors are elected by a plurality of the votes cast. Broker non-votes have no effect on Proposal No. 2, the ratification of the selection of our independent registered public accounting firm, because brokers or nominees have discretionary authority to vote on this proposal.

Principal Executive Offices of Digimarc

Our principal executive offices are located at 9405 S.W. Gemini Drive, Beaverton, Oregon 97008.

ELECTION OF DIRECTORS
(Proposal No. 1)

Our Board of Directors is divided into three classes: Class I, Class II and Class III. At the Annual Meeting, three directors will be elected, each to serve for a term of three years and until his successor is elected and qualified, or until the death, resignation or removal of such director. Mr. Davis, Mr. Grossi and Mr. Richardson have been nominated for election as Class III directors at this Annual Meeting. Proxies will be voted for the election of each of the nominees for director named below unless the authority to vote for the nominee is withheld. Each of Mr. Davis, Mr. Grossi and Mr. Richardson has indicated that he is able and willing to serve if elected. If, however, any nominee is unable or declines to serve as director at the time of the Annual Meeting, the proxies will be voted for any nominee who is designated by the current Board of Directors to fill the vacancy. If Mr. Davis, Mr. Grossi or Mr. Richardson should become unable or unavailable to serve prior to the election, the Board of Directors may recommend another nominee, and Bruce Davis and Michael McConnell, in their capacity as proxy holders, will vote the proxies for the nominee.

Our Board also has six continuing directors. Mr. Roth, Mr. Miller and Mr. Waterhouse are serving as Class I directors until our 2009 annual meeting of stockholders. Mr. Monego, Mr. Smith and Mr. Whitney are serving as Class II directors until our 2010 annual meeting of stockholders.

Our Bylaws authorize the number of directors to be not less than five and not more than eleven. Our Board of Directors has fixed the number of directors at ten. One vacancy exists on the Board of Directors. The Board of Directors has determined that the current size and configuration of the Board is sufficient, and has determined to discontinue further searches for director candidates to fill the vacancy at this time.

No director of Digimarc has resigned or declined to stand for re-election to the Board of Directors because of disagreements with us on any matter relating to our operations, policies or practices since the date of the last meeting of the stockholders. There are no arrangements or understandings between any director or executive officer and any other person pursuant to which he is or was to be selected as a director or officer. There is no family relationship between any director and any executive officer of Digimarc.

	<u>Age</u>	<u>Director Since</u>	<u>Expiration of Term</u>
Nominees:			
Bruce Davis	55	1997	2011(1)
Brian J. Grossi	57	1996	2011(1)
James T. Richardson	60	2003	2011(1)
Continuing Directors:			
Jim Roth	71	2003	2009
William J. Miller	62	2005	2009
Lloyd G. ("Buzz") Waterhouse	56	2005	2009
Philip J. Monego, Sr.	60	1996	2010
Peter W. Smith	74	2000	2010
Bernard Whitney	51	2005	2010

(1) Assuming election at the Annual Meeting.

Class III Director Nominees

Bruce Davis has served as our Chief Executive Officer and a director since December 1997, as our chairman of the Board of Directors since May 2002, and as our President from December 1997 through May 2001. Mr. Davis received a B.S. in accounting and psychology and an M.A. in criminal justice from the State University of New York at Albany, and a J.D. from Columbia University.

Brian J. Grossi has served on our Board of Directors since July 1996, when he led the first professional investment round in Digimarc. Since 1994, when Mr. Grossi co-founded AVI Capital Management, a venture capital firm specializing in high-technology companies, Mr. Grossi has served as a general partner of AVI Capital. Mr. Grossi received a B.S. with Distinction and an M.S. in mechanical engineering from Stanford University.

James T. Richardson was elected to our Board of Directors in March 2003. Mr. Richardson is a director of and consultant to companies in the high-technology sector. Mr. Richardson serves as chairman of the Board of Directors of FEI Company (Nasdaq: FEIC) and as a director and audit committee chair of Tripwire, Inc., a Portland, Oregon-based network security company. Mr. Richardson received a B.A. in finance and accounting from Lewis and Clark College, an M.B.A. from the University of Portland, and a J.D. from Lewis and Clark Law School, and is a licensed C.P.A. and attorney in Oregon.

Continuing Class I Directors

Jim Roth was elected to our Board of Directors in February 2003. Mr. Roth is a retired corporate executive with forty-nine years of experience in the aerospace, defense and several related high technology sectors. Past directorships include membership on the Board of Directors of EDO Corporation (NYSE: EDO), Titan Corporation (NYSE: TTN), and Sure Beam Corporation (Nasdaq: SURE). Mr. Roth received a B.S. in electrical engineering from the University of Toledo and an M.S. in electrical engineering from the University of Akron.

William J. Miller was elected to our Board of Directors in June 2005. Mr. Miller is a retired corporate executive with thirty-six years of experience in the high technology and legal sectors, and has, since 1999, served as an independent director and consultant. He serves as a member of the Board of Directors for each of the following companies: Nvidia Corp (Nasdaq: NVDA), a provider of graphics processing units, media and communications processors, wireless media processors, and related software for personal computers, handheld devices, and consumer electronics platforms; Waters Corporation (NYSE: WAT), a manufacturer of analytical instruments; Overland Storage, Inc. (Nasdaq: OVRL), a supplier of data storage products; and Viewsonic Corporation, a provider of visual display products. Mr. Miller received a B.A. in speech communication from the University of Minnesota and a J.D. from the University of Minnesota.

Lloyd G. ("Buzz") Waterhouse was elected to our Board of Directors in July 2005. Mr. Waterhouse is recently retired as president and CEO of Harcourt Education. Before joining Harcourt, Mr. Waterhouse served as an independent director and consultant from 2005 to 2007. Prior to that, Mr. Waterhouse served Reynolds and Reynolds Co. as a director from 1999 to 2004, including as chairman from 2001 to 2004, chief executive officer from 2001 to 2004, and president and chief operating officer from 1999-2000. Mr. Waterhouse serves as a member of the Board of Directors for each of the following companies: Atlantic Mutual Companies, where he serves as a member of the governance committee; e-Fund, which he co-founded; and i2 Technologies (Nasdaq: ITWO), where he serves on the governance, strategic review and audit committees. Mr. Waterhouse received a B.S. in Finance from Pennsylvania State University and an M.B.A. in finance from Youngstown State University.

Continuing Class II Directors

Philip J. Monego, Sr. was our chairman of the Board of Directors from 1996 to May 2002. Mr. Monego is the managing partner of Technology Perspectives Partners, LLC, an early stage investment fund focused on consumer technology products and web based consumer services, and a venture partner in the Media Technology Venture family of funds (Allegis Capital). He is also the president and founder of Technology Perspectives, a strategic and interim management consulting firm, which he started in 1987. He is chairman of the Board of Directors of My Vision One, Inc., a social media network for X-Boomers, and a director and chairman of the compensation committee of CafePress.com Inc., an online marketplace and e-commerce services company. Mr. Monego earned a B.A. in management from LaSalle University in 1972.

Peter W. Smith was elected to our Board of Directors in April 2000. Mr. Smith is a retired corporate executive and has served as a consultant to various other companies since 2000. Most recently, Mr. Smith served as president of News Technology for News America from January 1998 until his retirement in February 2000, where he coordinated technology throughout News Corporation and served as a technology advisor to its Board of Directors. Mr. Smith received a B.E. and B.Sc. from the University of Sydney, with first class honors.

Bernard Whitney was elected to our Board of Directors in June 2005. Mr. Whitney is a retired corporate executive with twenty-seven years of experience in the high technology and finance sectors, and has since 2002 served as an independent director and consultant. He currently serves as a director for a number of private and non-profit entities. Mr. Whitney received a B.S. in business administration, majoring in finance, from California State University Chico, and a masters in business administration from San Jose State University.

Determination of Independence

The Board of Directors has determined that each of Messrs. Monego, Grossi, Smith, Roth, Richardson, Whitney, Miller and Waterhouse, collectively representing a majority of the members of our Board of Directors, are "independent" as that term is defined by Nasdaq Marketplace Rule 4200. There were no related person transactions involving any of the independent directors of Digimarc.

Vote Required

If a quorum is present, the three candidates receiving the highest number of affirmative votes present or represented and voting on this proposal at the Annual Meeting will be elected to the Board of Directors. Abstentions and broker non-votes will be counted for the purposes of determining the presence or absence of a quorum, but will have no effect on the election of directors once a quorum is established.

The Board of Directors recommends a vote FOR the election of each of the nominees named above.

**RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC
ACCOUNTING FIRM
(Proposal No. 2)**

The Audit Committee of the Board of Directors has appointed Grant Thornton LLP as Digimarc's independent registered public accounting firm to audit our consolidated financial statements for the year ending December 31, 2008. Although ratification by stockholders is not required by law, the Board of Directors has determined that it is desirable to request approval of this selection by the stockholders. Notwithstanding its selection, the Audit Committee, in its discretion, may appoint a new independent registered public accounting firm at any time during the year if the Audit Committee believes that such a change would be in the best interests of Digimarc and its stockholders.

If the stockholders do not ratify the selection of Grant Thornton LLP as our independent registered public accounting firm, the Audit Committee will reconsider the appointment. A representative of Grant Thornton LLP is expected to be present at the Annual Meeting and will be available to respond to appropriate questions from stockholders and to make a statement if he or she desires to do so.

Vote Required

If a quorum is present, the affirmative vote of a majority of the shares present or represented and entitled to vote at the Annual Meeting will be required to ratify the appointment of Grant Thornton LLP as our independent registered public accounting firm. Abstentions will have the effect of a vote "against" the ratification of Grant Thornton LLP as our independent registered public accounting firm.

**The Audit Committee and the Board of Directors recommends a vote FOR the ratification of
Grant Thornton LLP as our independent registered public accounting firm for the year
ending December 31, 2008.**

REPORT OF THE GOVERNANCE AND NOMINATING COMMITTEE OF THE BOARD OF DIRECTORS

The Governance and Nominating Committee reports as follows:

Board of Directors

The Board of Directors met five times in 2007. Each director attended 100% of the aggregate of the total number of meetings of the Board of Directors and of any committee on which he served in 2007, except that Mr. Waterhouse missed one meeting of the Governance and Nominating Committee and attended 80% of those meetings. We encourage but do not require director attendance at our annual meeting of stockholders. All nine of the directors attended the 2007 Annual Meeting of Stockholders on May 2, 2007.

Board Committees

The Board of Directors has three standing committees: an Audit Committee, a Compensation Committee and a Governance and Nominating Committee. The members of these committees are set forth in the following table:

Non-Employee Directors	Audit	Governance and Nominating	Compensation
Philip J. Monego, Sr.		Member	Member
Brian J. Grossi	Member		Chair
Peter W. Smith		Chair	
Jim Roth		Member	Member
James T. Richardson*	Member		
Bernard Whitney	Chair		
William J. Miller	Member		
Lloyd G. Waterhouse		Member	

*

Mr. Richardson also serves as the Lead Director

Audit Committee

We have a standing Audit Committee of the Board of Directors, consisting of Messrs. Whitney (chairman), Richardson, Grossi, and Miller, that is responsible for overseeing the quality and integrity of our accounting, auditing, and financial reporting practices, the audits of our financial statements, and other duties assigned by the Board of Directors. The Audit Committee's role includes a particular focus on the qualitative aspects of financial reporting to stockholders, our processes to manage business and financial risk, and compliance with significant applicable legal, ethical, and regulatory requirements. The Audit Committee is directly responsible for the appointment, compensation, retention and oversight of the independent registered public accounting firm, including the resolution of any disagreements between management and the independent registered public accounting firm regarding financial reporting, engaged to prepare or issue an audit report on our financial statements or to perform other audit, review or attestation services for us. The Audit Committee also serves as our Qualified Legal Compliance Committee. The Audit Committee met four times during 2007.

The Board of Directors has adopted and amended from time to time a charter for the Audit Committee to authorize powers consistent with the provisions of the Sarbanes-Oxley Act of 2002 and other requirements. A copy of this charter is posted on the Digimarc website, www.digimarc.com, on the

Corporate Governance page. The Board of Directors has determined that each of the four members of the Audit Committee:

meets the requirements for "independence" set forth in Nasdaq Marketplace Rules 4200 and 4350(d) and applicable SEC rules; and

has the requisite financial sophistication called for by Nasdaq Marketplace Rule 4350(d).

The Board of Directors also has reviewed and designated each of Messrs. Whitney, Richardson and Miller as an "Audit Committee financial expert" in compliance with Item 407(d)(5) of Regulation S-K.

Compensation Committee

The Compensation Committee, consisting of Messrs. Grossi (chairman), Monego, and Roth, has the authority and responsibility to:

approve our overall compensation strategy,

review, establish and approve executive compensation,

administer our annual and long-term compensation plans,

review and make recommendations to the Board of Directors with respect to director compensation, and

perform other duties and functions assigned by the Board of Directors from time to time that are consistent with the Compensation Committee's charter, our Bylaws and governing law.

The Compensation Committee's role includes a particular focus on the compensation of our executive officers and non-employee directors and the administration of our stock incentive plans and significant employee benefit programs.

The Compensation Committee met seven times in 2007. The Compensation Committee has a written charter, a copy of which is available on the Digimarc website, www.digimarc.com on the Corporate Governance page. The Board of Directors has determined that all members of the Compensation Committee are:

"independent" as that term is defined in Nasdaq Marketplace Rule 4200,

"non-employee directors" as that term is defined under Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, and

"outside directors" as defined under Section 162(m) of the Internal Revenue Code of 1986, as amended.

The Compensation Committee may, under its charter, delegate responsibilities to subcommittees of the Committee as necessary and appropriate. To date, no such delegations have occurred. The Committee has delegated authority to the Chief Executive Officer and Chief Legal Officer to grant new hire options to employees pursuant to a predetermined grant budget and matrix that sets the size of grants for classifications of employees.

The Compensation Committee, together with our Chief Executive Officer, reviews assessments of executive compensation practices at least annually against comparative data and our compensation philosophy. Our Chief Executive Officer makes recommendations to the Compensation Committee with the intent of keeping our executive officer compensation practices aligned with our compensation philosophy. The

Compensation Committee must approve any recommended changes before they can be made.

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The Compensation Committee has the authority to retain and terminate any compensation and benefits consultant and the authority to approve the related fees and other retention terms of the consultant. The Compensation Committee has retained Radford Surveys + Consulting, a nationally recognized independent consulting firm, to provide an independent review of our compensation programs for executive officers and directors, assist in the preparation of a list of peer companies, examine our pay practices relative to the market and assist in the design of compensation programs. In July 2007, the Compensation Committee approved the retention of Radford to conduct a compensation benchmark study, to review the competitiveness of compensation levels of our key executives, and to assist the committee in developing long-term incentive awards. Radford provides compensation information to management on market compensation trends from time to time, but does not have a material additional relationship outside of the services that it provides to the Compensation Committee.

Governance and Nominating Committee

The Governance and Nominating Committee consists of Messrs. Smith (chairman), Monego, Roth, and Waterhouse. The Governance and Nominating Committee met five times in 2007. The Board of Directors has delegated to the Governance and Nominating Committee the responsibility for overseeing the quality and integrity of our corporate governance practices and for assessing the size, membership, skills and characteristics necessary and appropriate for members of the Board of Directors and its committees. The Board of Directors has adopted a written charter for the Governance and Nominating Committee, a copy of which is posted on Digimarc's website at www.digimarc.com on the Corporate Governance page. The Board of Directors has determined that all members of the Governance and Nominating Committee are "independent" as that term is defined in Nasdaq Marketplace Rule 4200.

The Governance and Nominating Committee's responsibilities include the review, monitoring, and general oversight of our policies and procedures involving corporate governance and compliance with significant legal, ethical, and regulatory requirements. This oversight responsibility includes monitoring compliance with the Sarbanes-Oxley Act of 2002. The Governance and Nominating Committee also oversees the structure and evaluation of the Board of Directors and its committees, and the development, monitoring, and enforcement of the corporate governance principles applicable to us.

The Governance and Nominating Committee is responsible for recruiting individuals to become members of the Board of Directors and evaluating their qualifications under the guidelines described under "Director Nomination Policy" below. The Governance and Nominating Committee is also responsible for the composition of the Board committees. The Board of Directors may assign the Governance and Nominating Committee additional duties and functions from time to time consistent with its charter, our Bylaws and governing law. Succession planning is one such responsibility assigned to the committee.

Director Nomination Policy. The Governance and Nominating Committee has a formal written policy addressing the nominating process. A copy of the policy is available on our website at www.digimarc.com, attached as an exhibit to the Governance and Nominating Committee charter located on the Corporate Governance page of the site. Pursuant to its written policy addressing the nominating process, the Governance and Nominating Committee welcomes and encourages recommendations of director candidates from our stockholders, and will consider any director candidates recommended by our stockholders, provided that the information regarding director candidates who are recommended is submitted to the Governance and Nominating Committee in compliance with the terms of its policy. Director candidate nominations from stockholders may be submitted at any time, but they must be provided in writing, include prescribed information, and be sent to Digimarc's Secretary at the address of our principal executive offices.

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In evaluating a potential candidate's qualification for nomination to the Board, the Governance and Nominating Committee will consider the potential candidate's experience, areas of expertise, and other factors relative to the overall composition of the Board of Directors. The Governance and Nominating Committee will also review from time to time the skills and characteristics necessary and appropriate for directors in the context of the current composition of the Board of Directors. Directors are expected to devote sufficient time to carry out their duties and responsibilities effectively, ensure that other existing and planned future commitments do not materially interfere with his/her service as a director, and attend at least 75% of all Board of Directors and applicable committee meetings.

The Governance and Nominating Committee's process for identifying and evaluating nominees for director, including nominees recommended by stockholders, involves compiling names of potentially eligible candidates, vetting those candidates against the factors described above, conducting background and reference checks, conducting interviews with candidates, meeting to consider and approve final candidates and, as appropriate, preparing and presenting to the Board of Directors an analysis with regard to a candidate. There are no differences in the manner in which the Governance and Nominating Committee evaluates nominees for director based on whether the nominee is recommended by a stockholder or by the Governance and Nominating Committee. The committee may, from time to time, pay professional search firms to assist in the identification and evaluation of potential nominees.

Stockholder Communications with the Board of Directors

The Board of Directors encourages communication from stockholders. All communications must be in written form, addressed to the Board of Directors or to one or more individual members of the Board of Directors, and sent care of the Secretary of Digimarc at the address of our principal executive offices or via fax to (503) 469-4771. The Secretary of Digimarc will promptly provide all communications to the applicable member(s) of the Board of Directors or the entire Board of Directors, as specified by the stockholder.

Stock Ownership Guidelines

In March 2007, the Board of Directors adopted stock ownership guidelines for members of the Board of Directors. Under the guidelines, existing directors are expected to acquire ownership of 10,000 shares of our common stock by December 31, 2012. A newly elected director must acquire ownership of 10,000 shares of our common stock within five years following the director's date of election. Executive officers are expected to own Digimarc stock, and in fact do own stock, but are not included within these numerical guidelines.

Director Resignation Upon Change of Employment

The Board of Directors also has approved a policy that requires any director who experiences a substantial change in principal employment responsibility that may adversely affect his ability to carry out his responsibilities as a director effectively to tender his or her resignation from the Board, unless the change was anticipated by the Governance and Nominating Committee at the time of the director's nomination or election to the Board. Upon receipt of a resignation offered under these circumstances, the Governance and Nominating Committee will review the director's change in employment responsibilities to evaluate whether the director's continued service is appropriate.

Other Corporate Governance Matters

In furtherance of our commitment to upholding the highest legal and ethical conduct in fulfilling our responsibilities, the Board of Directors adopted and published corporate governance guidelines and three codes of ethics and business conduct, listed below, that are monitored by our Governance and Nominating Committee and our Audit Committee.

Our Corporate Governance Guidelines can be found on the Corporate Governance page of our website at www.digimarc.com. These Corporate Governance Guidelines provide a framework for the Board of Directors to assist in the governance and oversight of the affairs of Digimarc.

Our Code of Business Conduct can be found on the Corporate Governance page of our website at www.digimarc.com. The Code of Business Conduct applies to all employees of Digimarc and its subsidiaries, as well as to directors, temporary contractors, and other independent contractors or consultants when engaged by or otherwise representing us or our interests, and sets forth internal policies and guidelines designed to support and encourage ethical conduct and compliance with the laws, rules and regulations that govern our business operations.

Our Code of Ethics for Financial Personnel can be found on the Corporate Governance page of our website at www.digimarc.com. The Code of Ethics applies to the principal executive officer and principal financial officer of Digimarc and its subsidiaries and all professionals worldwide serving in finance, accounting, treasury, tax or investor relations roles.

Our Standards of Professional Conduct for Legal Personnel can be found on the Corporate Governance page of our website at www.digimarc.com. The Standards of Professional Conduct apply to all lawyers who perform services for us, and require lawyers to report evidence of any material violation of law either to our Qualified Legal Compliance Committee or "up the corporate ladder" until the lawyer receives a response that addresses the issue or concern raised.

Submitted by the Governance and Nominating
Committee of the Board of Directors:

Peter Smith, Chair
Philip J. Monego, Sr.
Jim Roth
Buzz Waterhouse

DIRECTOR COMPENSATION

The following table provides information on compensation of our non-employee directors for the year ended December 31, 2007. Directors who are also Digimarc employees receive no additional compensation for their services as directors. During 2007, Mr. Davis was the only director who was an employee of Digimarc. Mr. Davis's compensation is discussed in this proxy statement under the heading "Executive Compensation."

2007 DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid		Stock Awards		Option Awards		Total	
		in Cash(\$)		(\$)(1)		(\$)(2)		(\$)
Philip J. Monego, Sr.	\$	38,750	\$	25,496	\$	26,986	\$	91,232
Brian J. Grossi	\$	50,000	\$	25,496	\$	26,986	\$	102,482
Peter W. Smith	\$	37,500	\$	25,496	\$	26,986	\$	89,982
Jim Roth	\$	38,750	\$	25,496	\$	26,986	\$	91,232
James T. Richardson	\$	70,000	\$	25,496	\$	26,986	\$	122,482
Bernard Whitney	\$	50,000	\$	25,496	\$	39,628	\$	115,124
William J. Miller	\$	40,000	\$	25,496	\$	39,628	\$	105,124
Lloyd G. Waterhouse	\$	33,750	\$	25,496	\$	39,378	\$	98,624

(1)

On May 2, 2007, each director received a grant of 3,000 shares of restricted stock with a grant date fair value of \$29,640. The amounts disclosed above reflect the expense taken in 2007 for stock granted to the indicated director in 2007 and previous years. This grant was our second grant of restricted stock to our directors, and the total number of shares of restricted stock held by each director as of December 31, 2007 was a total of 5,400 shares of restricted stock. A summary of the assumptions we apply in calculating these amounts is set forth in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007 on page F-17 under the caption "Restricted Stock and Performance Vesting Shares."

(2)

These amounts represent the amount of expense we took in 2007 for stock options granted to the indicated director in 2007 and previous years. On May 2, 2007, each director was granted an option to purchase 6,000 shares with a grant date fair value of \$28,609. A summary of the assumptions we apply in calculating these amounts is set forth in the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2007 on pages F-15 to F-16 under the caption "Stock Options". As of December 31, 2007, the total number of outstanding options held by each director was as follows: Mr. Monego, 193,500; Mr. Grossi, 103,500; Mr. Smith, 100,000; Mr. Roth, 59,000; Mr. Richardson, 62,000; Mr. Whitney, 32,000; Mr. Miller, 32,000; and Mr. Waterhouse, 32,000.

All directors are also reimbursed for reasonable and necessary travel, communications, and other out-of-pocket business expenses incurred in connection with their attendance at meetings, while on corporate business or for continuing education related to their board service.

Cash Compensation. In 2007, each non-employee director received an annual cash retainer of \$30,000. The Lead Director received an additional annual cash retainer of \$30,000. Members of the Audit Committee received an annual cash retainer of \$10,000, with the chair of the Audit Committee receiving an annual cash retainer of \$20,000. Members of the Compensation Committee received an annual cash retainer of \$5,000, with the chair of the Compensation Committee receiving an annual cash

retainer of \$10,000. Members of other standing committees of the Board of Directors received an additional annual cash retainer of \$3,750 for each committee on which the member served, with the chair receiving an annual cash retainer of \$7,500. In addition, each committee member receives a fee of \$1,000 for each in-person committee meeting and a fee of \$500 for each teleconference committee meeting in excess of eight meetings of the particular committee per year. No fees for excess meetings were paid during 2007.

Equity Compensation. The 1999 Non-Employee Director Option Program established an automatic option grant program for the grant of awards to our non-employee directors. Under this program, each non-employee director who first is elected to our Board of Directors on or after March 29, 2002 is automatically granted an option to acquire 20,000 shares of common stock at an exercise price per share equal to the fair market value of the common stock at the date of grant. These options vest and become exercisable in 36 equal installments on each monthly anniversary of the grant date, so the stock option is fully exercisable three years after the grant date. No new directors were elected to our Board of Directors in 2007. On the date of each annual stockholders meeting, each non-employee director who has been a member of our Board of Directors for at least six months prior to the date of the stockholders meeting automatically receives an option to acquire 6,000 shares of our common stock at an exercise price per share equal to the fair market value of the common stock at the date of grant, and an automatic grant of 3,000 shares of restricted stock. The options vest and become exercisable in twelve equal installments on each monthly anniversary of the grant date, so the stock option is fully exercisable one year after the grant date. The restricted stock awards are subject to a forfeiture restriction that lapses as to 100% of the shares subject to the award one year after the grant date. Messrs. Monego, Grossi, Smith, Roth, Richardson, Waterhouse, Miller and Whitney all received grants of options and restricted stock in 2007.

In addition, the 1999 Non-Employee Director Option Program provides that, immediately following each annual meeting of our stockholders, each non-employee director who serves as a member of a standing committee of the Board and who has been a member of the Board of Directors for at least six months prior to the date of the stockholders meeting receives an option to acquire 3,000 shares of common stock at an exercise price per share equal to the fair market value of the common stock at the date of grant. These options vest and become exercisable in twelve equal installments on each monthly anniversary of the grant date, so the stock option is fully exercisable one year after the grant date.

The Board of Directors has discretion to elect not to make the annual option and restricted stock grants to continuing Board members and standing committee members. Since 2004, the Board has elected not to make the annual 3,000 share option grant to directors for service on one or more standing committees. The shares for committee service are a vestige of the former program under which Digimarc directors received only equity compensation, rather than a combination of cash and equity compensation, which is the case now. The Board of Directors determined that the value of the options and restricted stock grants provided sufficient equity compensation for their service as directors.

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Following is a summary of the cash compensation program for our non-employee Directors, presented in a tabular format:

Annual Cash Retainer	\$30,000
Additional Annual Cash Retainers for:	
Lead Director	\$30,000
Audit Committee Chair	\$20,000
Audit Committee Member	\$10,000
Compensation Committee Chair	\$10,000
Compensation Committee Member	\$5,000
Other Standing Committee Chair	\$7,500
Other Standing Committee Member	\$3,750
Additional fee for meetings in excess of eight meetings per year	\$1,000 for in-person meeting \$500 for teleconference
Initial Option Grant (New Director)	20,000 shares
Annual Option Grant (Continuing Director)	6,000 shares
Annual Restricted Stock Grant (Continuing Director)	3,000 shares
Annual Standing Committee Member Option Grant*	3,000 shares

*

As in prior years, the Board elected not to grant these awards in 2007.

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee (the "Audit Committee") reports as follows:

1. The Audit Committee has reviewed and discussed the audited financial statements with our management.
2. The Audit Committee has discussed with Grant Thornton LLP, Digimarc's independent registered public accounting firm, the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees, as amended.
3. The Audit Committee has received the written disclosures and the letter from Grant Thornton LLP required by Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, has discussed with Grant Thornton LLP their independence from Digimarc and has considered whether the provision of the non-audit services is compatible with maintaining Grant Thornton LLP's independence from Digimarc.
4. Based on the review and discussion referred to in paragraphs (1) through (3) above, the Audit Committee recommended to Digimarc's Board of Directors, and the Board of Directors has approved, the inclusion of the audited financial statements in Digimarc's Annual Report on Form 10-K for the year ended December 31, 2007, for filing with the SEC.

As described under the heading "Proposal Two Ratification of Appointment of Independent Registered Public Accounting Firm," the Audit Committee has appointed Grant Thornton LLP as Digimarc's independent registered public accounting firm for fiscal year 2008 and is seeking ratification of the appointment at the Annual Meeting.

Submitted by the Audit Committee of Digimarc's Board of Directors:

Bernard Whitney, Chairman
 James T. Richardson
 Brian J. Grossi
 William J. Miller

Audit Fees

The following table presents fees billed, individually and collectively, for professional audit services rendered by Grant Thornton LLP and KPMG LLP for the audit of our annual consolidated financial statements and for other services rendered for the year ended December 31, 2007, compared to the fees billed for professional audit and related service provided by Grant Thornton LLP and KPMG LLP for the year ended December 31, 2006.

	Fiscal 2007			Fiscal 2006		
	Grant Thornton Fees	KPMG Fees	Total Fees	Grant Thornton Fees	KPMG Fees	Total Fees
Audit Fees(1)	\$ 890,800	\$ 10,000	\$ 900,800	\$ 926,700	\$ 15,000	\$ 941,700
Audit-Related Fees(2)	5,300	3,500	8,800	0	0	0
Tax Fees(3)	52,900	0	52,900	67,100	0	67,100
All Other Fees(4)	0	0	0	0	0	0
Total Fees	\$ 949,000	\$ 13,500	\$ 962,500	\$ 993,800	\$ 15,000	\$ 1,008,800

- (1) Audit Fees consist of fees for professional services rendered for the audit of our 2007 and 2006 consolidated annual financial statements and review of the interim consolidated financial

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statements included in quarterly reports and services that are normally provided by Grant Thornton and KPMG in connection with regulatory filings. The Grant Thornton audit fees include the estimated audit fees for the 2007 year-end audit. For 2007 and 2006, Audit Fees also included compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

- (2) Audit-Related Fees consist of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements and are not reported under "Audit Fees," such as audits of employee benefit plans. The Grant Thornton and KPMG audit-related fees covered their review of and consent to a registration statement on Form S-8.
- (3) Tax Fees consist of fees billed for professional services rendered for tax compliance, including preparation of federal, state and international tax returns. The Grant Thornton tax fees related to consulting and tax return related items.
- (4) All Other Fees consist of fees for products and services other than the services reported above. No such fees were incurred in 2007 and 2006.

Pre-Approval Policy. The Audit Committee pre-approves the Audit, Audit- Related, Tax and All Other services performed by the independent registered public accounting firms. The Audit Committee has adopted a policy for the pre-approval of services provided by the independent registered public accounting firms that is reviewed and updated from time to time. Under the policy, the term of any pre-approval is generally twelve months from the date of pre-approval. Pre-approval fee levels or budgeted amounts for all services to be provided by the independent registered public accounting firms and the specific services included within the pre-approvals are established annually by the Audit Committee and are reviewed as the Audit Committee deems appropriate. Any proposed services exceeding these levels or amounts or of a different type require specific pre-approval. No services provided by the independent auditors under the categories of "Audit Fees", "Audit-Related Fees", and "Tax Fees" were approved pursuant to the de minimus exception provided in Rule 2-01(c)(7)(i)(C) of Regulation S-X.

MANAGEMENT

Executive Officers

The following table contains information regarding our executive officers as of April 1, 2007:

Name	Age	Position
Bruce Davis	55	Chief Executive Officer and Chairman of the Board of Directors
Robert Eckel	49	President, Government Programs
Michael McConnell	57	Chief Financial Officer and Treasurer
Robert Chamness	55	