

DIGIMARC CORP  
Form DEF 14A  
March 30, 2007  
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  x

Filed by a Party other than the Registrant  o

Check the appropriate box:

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

**DIGIMARC CORPORATION**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1)	Title of each class of securities to which transaction applies: N/A
(2)	Aggregate number of securities to which transaction applies: N/A
(3)	Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined): N/A
(4)	Proposed maximum aggregate value of transaction: N/A
(5)	Total fee paid: N/A
- o Fee paid previously with preliminary materials.
- o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1)	Amount Previously Paid: N/A
(2)	Form, Schedule or Registration Statement No.: N/A
(3)	Filing Party: N/A
(4)	Date Filed: N/A



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

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD ON MAY 2, 2007**

To the Stockholders of Digimarc Corporation:

Notice is hereby given that the 2007 Annual Meeting of Stockholders (the Annual Meeting ) of Digimarc Corporation, a Delaware corporation (the Company ), will be held on Wednesday, May 2, 2007 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 II directors, to hold office until the 2010 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 the Company s independent registered public accounting firm for the year ending December 31, 2007 (Proposal No. 2);
- 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 14, 2007 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.

**Whether or not you expect to attend the Annual Meeting in person, we urge you to mark, sign, date, and return the enclosed proxy card as promptly as possible in the postage-prepaid envelope provided to ensure your representation and the presence of a quorum at the Annual Meeting. If you send in your proxy card and then 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  
April 2, 2007

**DIGIMARC CORPORATION**

**PROXY STATEMENT FOR 2007 ANNUAL MEETING OF STOCKHOLDERS**

**General Information**

This Proxy Statement is being mailed to the stockholders of Digimarc Corporation (the Company or Digimarc or we or our ), a Delaware corporation, on or about April 2, 2007, in connection with the solicitation by the Company through its Board of Directors (the Board of Directors ) of proxies for use in voting at the Annual Meeting of Stockholders of the Company (the Annual Meeting ) to be held on Wednesday, May 2, 2007, at 11:00 a.m., local time, at the headquarters of Digimarc Corporation, 9405 S.W. Gemini Drive, Beaverton, Oregon 97008, and any adjournment or postponement thereof. 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 thereon.

The close of business on March 14, 2007 has been fixed 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, there were 21,497,731 shares of the Company's common stock, \$0.001 par value per share, 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.

**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 the Company (to the attention of Robert P. Chamness, the Company's 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**

The cost of soliciting proxies will be borne by the Company. Besides this solicitation by mail, our directors, officers and other employees may solicit proxies. Such 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 such persons and our transfer agent for their reasonable out-of-pocket expenses in forwarding such material. We may also retain the services of a proxy solicitation, 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 the Company would not pay more than \$10,000.

**Voting Procedures**

- Directors are elected by a plurality of the votes cast, provided a majority of the shares of common stock are present or represented and entitled to vote at the Annual Meeting. The three nominees who receive the greatest number of votes will be elected directors.
- The ratification of the appointment of the independent registered public accounting firm of the Company for the fiscal year ending December 31, 2007 will require 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 General Corporation Law of the State of Delaware, 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. 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.
- 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 General Corporation Law of the State of Delaware, broker non-votes effectively count as being present for purposes of determining whether a quorum of shares is present at a meeting. Broker non-votes have no effect on Proposal No. 1 or Proposal 2.

**Principal Executive Offices of Digimarc**

Digimarc Corporation's 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 are to 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. Monego, Mr. Smith and Mr. Whitney, as Class II directors, are up for election at this Annual Meeting. Proxies will be voted for the election of each of the nominees named below as director unless the authority to vote for the nominee is withheld. Mr. Monego, Mr. Smith and Mr. Whitney have indicated that each of them is able and willing to serve if elected. In the event, however, that 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. Monego, Mr. Smith or Mr. Whitney should become unable or unavailable to serve prior to the election, the Board of Directors may recommend another person, and Bruce Davis and Michael McConnell, in their capacity as proxy holders, will vote the proxies for such person.

There are also six continuing directors. Mr. Davis, Mr. Grossi and Mr. Richardson, as Class III directors, will serve until the Company's 2008 annual meeting of stockholders. Mr. Roth, Mr. Miller and Mr. Waterhouse, as Class I directors, will serve until the Company's 2009 annual meeting of stockholders.

The Company's Amended and Restated Bylaws, as amended, authorize the number of directors to be not less than five and not more than eleven. The number of directors is currently fixed by the Bylaws at ten. There is presently one vacancy 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.

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No director of the Company has resigned or declined to stand for re-election to the Board of Directors because of disagreements with the Company on any matters relating to the Company's 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 of the Company. There is no family relationship between any director and executive officer of the Company.

	Age	Director Since	Expiration of Term
<b>Nominees:</b>			
Philip J. Monego, Sr.	59	1996	2010
Peter W. Smith	73	2000	2010
Bernard Whitney	50	2005	2010
<b>Continuing Directors:</b>			
Bruce Davis	54	1997	2008
Brian J. Grossi	56	1996	2008
James T. Richardson	59	2003	2008
Jim Roth	70	2003	2009
William J. Miller	61	2005	2009
Lloyd G. ( Buzz ) Waterhouse	55	2005	2009

### Class II Director Nominees

*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, a private equity investment fund focused on early stage technology companies and a venture partner in the Media Technology Venture family of funds. He is also the president and founder of Technology Perspectives, a strategic management consulting firm, started in 1987. In that capacity, he has served as a strategic advisor to chief executives for some of the world's largest information technology and media companies. Mr. Monego was a founder, chief executive officer and chairman of the Board of Directors of Voquette, Inc., an enterprise content management software company from May 1999 to August 2002, at which time Voquette, Inc. was merged with Protégé Group, Ltd. to create a new entity, Semagix Group, Ltd., for which Mr. Monego served as non-executive chairman of the board until October 2003. Prior to that, Mr. Monego was co-founder, president and chief executive officer of NetChannel, Inc., an Internet information delivery service, from May 1996 to June 1998. Prior to that, Mr. Monego was interim president and chief executive officer of Yahoo! Corporation from April 1995 to September 1995. During his over 30 years in the information technology industry, Mr. Monego has been a founder, CEO, senior executive and investor in more than two dozen companies. He is a director 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 companies (other than Digimarc) since 2000. Most recently, Mr. Smith served as president of News Technology for News America from January 1998 until his retirement in February 2000. In that capacity, he coordinated technology throughout News Corporation and served as a technology advisor to its Board of Directors. From January 1996 to January 1998, Mr. Smith served as its executive vice president, television. Prior to that, Mr. Smith held the position of director, technology, for News International (UK). Both News Technology and News International (UK) are affiliated companies of News Corporation, an international media and entertainment company. 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-four years of experience in the high technology and finance sectors, and has since 2002 served as an independent director and consultant. From June 1999 until his retirement in



July 2002, Mr. Whitney was the vice president and CFO of Handspring, Inc, a handheld computer and wireless communications manufacturer. From August 1997 to June 1999, Mr. Whitney was the executive vice president and CFO of Sanmina Corporation, a high-end data com and telecom manufacturer. He served as the vice president of finance & manufacturing operations (1996 1997) and corporate controller (1995 1996) of Network General Corporation, a developer of network management software. From 1987 to 1995, Mr. Whitney held a number of senior financial management positions at Conner Peripherals, Inc., a disk and tape drive manufacturer. He began his career in financial analysis and accounting at Friden Alcatel, an electronic office equipment supplier, from 1983 to 1987, and Randtron Systems, and electronic antenna systems manufacturer, from 1981 to 1983. He currently serves as a director for a number of private and non-profit entities, and until its sale, served as a director for Plumtree Software, Inc. (Nasdaq: PLUM) (including as the chair of the audit committee and a member of the corporate governance committee). 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.

#### **Continuing Class III Directors**

**Bruce Davis** has served as our Chief Executive Officer since December 1997. He also has been our chairman of the Board of Directors since May 2002 and a director since December 1997. He also was our President from December 1997 through May 2001. Prior to joining us, Mr. Davis served as president of Titan Broadband Communications, a provider of information technology and satellite communications systems and services, from April 1997 to December 1997. Prior to that, Mr. Davis served as president of Prevue Networks, Inc., a supplier of electronic program guides and program promotion services for the cable and satellite television markets, from July 1996 to February 1997. Prior to that, Mr. Davis founded and served as president of TV Guide On Screen (which later merged with Prevue Networks, Inc. and is now part of Gemstar TV Guide International), a joint venture of News Corporation and TCI (now part of Comcast) which supplied electronic program guides and navigational software for the cable television market, from January 1993 to July 1996. 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 as one of our directors since July 1996, when he led the first professional investment round in the Company. In 1994, Mr. Grossi was a co-founding general partner of AVI Capital Management, a venture capital firm specializing in high-technology companies. From 1982 to 1992, Mr. Grossi was a co-founding general partner with Alpha Partners, an early-stage venture capital firm in Silicon Valley. From 1976 to 1982, he worked at the Stanford Research Institute as a research engineer and project leader. From 1973 to 1976, he worked at Hewlett Packard HPA and HP Labs as a design engineer. 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 and has served as chief financial officer and chief administrative officer for five global technology companies ranging in size from \$20 million to \$300 million in annual revenue. Functional responsibilities have included controllership, treasury, corporate communications, operations, business development (mergers & acquisitions), information systems, human resources and legal affairs. His most recent executive post was as senior vice president and chief financial officer at WebTrends Corporation from July 1998 to April 2001. Prior to that, he was senior vice president - corporate operations and chief financial officer at Network General Corporation (which has since merged with McAfee to form Network Associates) from April 1994 to January 1998; vice president finance and administration and chief financial officer at Logic Modeling Corp. (which has since been acquired by Synopsis) from July 1992 to March 1994; and vice president finance and administration and chief financial officer at Advanced Logic Research, Inc. (which has since been acquired by Gateway) from November 1989 to July 1992. Mr. Richardson currently serves as



chairman of the Board of Directors of FEI Company (Nasdaq: FEIC) and as a director of Tripwire, Inc., a Portland, Oregon-based network security company (audit committee chair). He is also a trustee of Lewis & Clark college and a member of the Board of Directors of the Oregon Historical Society. 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 the Lewis and Clark Law School. He attended the Stanford Directors College in 2001, holds the Certificate of Director Education issued by the National Institute of Corporate Directors (NACD) and is both a 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-eight years of experience in the aerospace, defense and several related high technology sectors. He currently serves as a director for EDO Corporation (NYSE: EDO), an engineered defense products company. Past directorships include membership on the Board of Directors of Titan Corporation (NYSE: TTN), a provider of systems solutions and services to the U.S. Department of Defense, intelligence agencies and other government clients, and Sure Beam Corporation (Nasdaq: SURE). Mr. Roth retired in 1998 as president and CEO of GRC International Inc., positions that he held since 1992, and where he also served as chairman of the Board of Directors of the corporation in 1997. GRC International Inc., formerly a publicly traded (NYSE) professional services company serving an array of government and private-sector clients with the majority of its revenues derived from the military, space and classified communities, was acquired by AT&T subsequent to Mr. Roth's retirement. Mr. Roth joined GRC International Inc. (then General Research Corporation) in 1974 as the director of Los Angeles operations. Prior to his retirement, Mr. Roth also served on the President's Council of Competitiveness, as director of the Northern VA Technology Council and the Professional Services Council and as an advisor for the Engineering College at the University of California at Santa Barbara. 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-five years of experience in the high technology and legal sectors, and has since 1999 served as an independent director and consultant. From April 1996 to his retirement in November 1999, Mr. Miller was the chairman and CEO of Avid Technology, Inc., a leader in digital media creation tools for film, video, audio, animation, games, and broadcast professionals. He served as the chairman (1993-1995) and CEO (1992-1995) of Quantum Corporation, a developer of storage technology. From 1981 to 1992, Mr. Miller also held senior management positions at Control Data Corporation, a supplier of computer hardware, software and services. He currently serves as a director for Nvidia Corporation (Nasdaq: NVDA), a provider of graphics processing units (GPUs), media and communications processors (MCPs), wireless media processors (WMPs), and related software for personal computers (PCs), handheld devices, and consumer electronics platforms; Waters Corporation (NYSE: WAT), a manufacturer of analytical instruments; Viewsonic Corporation, a provider of visual display products; Overland Storage, Inc. (Nasdaq: OVRL), a supplier of data storage products; and Glu Mobile Inc. (Nasdaq: GLUU), a publisher of mobile games. 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 president and CEO of Harcourt Education. From 2005 to 2007, Mr. Waterhouse served as an independent director and consultant. From 2001 to 2004, Mr. Waterhouse was the chairman and CEO of Reynolds and Reynolds Co., Inc. (NYSE: REY), a \$1 billion leader in providing technology solutions to automotive retailers and manufacturers. He also served as its president and chief operating officer from 1999-2000, and its CEO from 2000-2001. He is also a 26 year veteran of IBM Corporation (NYSE: IBM), where he served as president or general manager for a number of e-business, global services, and technical and

marketing business units, domestically and in Asia. Mr. Waterhouse currently serves as director for a number of corporate and not-for profit entities. He is on the Board of Directors of Atlantic Mutual Companies (serving on the governance committee); e-Fund, where he is a co-founder and director; i2 Company (Nasdaq: ITWH) (serving on the governance and audit committees); and the Board of Visitors, Pennsylvania State University, Smeal College of Business. He is a past director of Reynolds and Reynolds Co., Inc. (1999-2004); i-Zone, where he was a founder, chairman and an advisory board member; Ohio Business Roundtable; Dayton Development Commission; Fifth Third Bank, Western Ohio Region (2002-2005); and the Wright Center for Innovation (2003-2005). Mr. Waterhouse received a B.S. in Finance from Pennsylvania State University and an M.B.A. in finance from Youngstown State University.

**Determination of Independence**

The Board of Directors has determined that each of Philip J. Monego, Sr., Brian J. Grossi, Peter W. Smith, Jim Roth, James T. Richardson, Bernard Whitney, William J. Miller and Lloyd G. ( Buzz ) Waterhouse, collectively representing a majority of the members of the Board of Directors of the Company, are independent as such term is defined by Marketplace Rule 4200 of the National Association of Securities Dealers, Inc.

**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 the Company's independent registered public accounting firm to audit the Company's consolidated financial statements for the year ending December 31, 2007. Although ratification by shareholders 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 the Company and its stockholders.

If the stockholders do not ratify the selection of Grant Thornton LLP as the Company's 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.

**Resignation of Former Independent Registered Public Accounting Firm**

KPMG LLP advised the Company on June 14, 2005 that KPMG would resign as the Company's independent registered public accounting firm, effective upon the filing of the Company's Form 10-Q for the quarter ended June 30, 2005. On August 9, 2005, the Company filed its Form 10-Q for the quarter ended June 30, 2005, and KPMG's resignation as the Company's independent registered public accounting firm became effective upon such filing.

During the years ended December 31, 2003 and December 31, 2004 and the subsequent interim period through August 9, 2005, there were no disagreements with KPMG on any matter of accounting principle or practice, financial statement disclosure, or auditing scope or procedure, which disagreements

if not resolved to KPMG's satisfaction would have caused it to make reference to the subject matter of the disagreement in connection with its reports. KPMG's reports on the Company's consolidated financial statements for the years ended December 31, 2003 and December 31, 2004 and the subsequent interim period through August 9, 2005 did not contain an adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles, except that KPMG's report on the Company's consolidated financial statements for the year ended December 31, 2004 included a separate paragraph which stated the following: As indicated in Note 2 to the consolidated financial statements, the Company has restated its consolidated financial statements as of and for the year ended December 31, 2003.

During the years ended December 31, 2003 and December 31, 2004 and the subsequent interim period through August 9, 2005, there were no reportable events, except that KPMG's report indicates that the Company did not maintain effective internal control over financial reporting as of December 31, 2004 because of the effect of material weaknesses in internal controls and contains an explanatory paragraph which identified the following material weaknesses: inadequate supervision and technical accounting expertise within the accounting and finance department; inadequate design and implementation of new accounting system; inadequate quarterly and year-end financial statement close and review process; insufficient controls both for determining the nature and types of costs that should be capitalized and for ensuring allocation of costs to particular projects are appropriate; insufficient controls to ensure that various international, state and local tax exposures were quantified and properly accrued on a timely basis; insufficient training and inadequate reconciliation processes for complex revenue recognition requirements primarily related to international transactions; insufficient controls related to system access and segregation of duties; and inadequacies related to entity-level controls. The material weaknesses are described in more detail in the Company's Form 8-K filed with the Securities and Exchange Commission on June 20, 2005, as amended on August 15, 2005. The Company has since corrected these material weaknesses.

The Company authorized KPMG to respond fully to the inquiries of the successor independent registered public accounting firm concerning these issues, once such firm had been selected.

The Company provided KPMG with a copy of the disclosure contained in the Form 8-K, filed with the Securities and Exchange Commission on June 20, 2005, as amended on August 15, 2005, and requested that KPMG furnish it with a letter addressed to the Securities and Exchange Commission stating whether it agreed with the above statements. KPMG's letters, dated June 20, 2005 and August 12, 2005, are filed as exhibits to the Form 8-K and its amendment, respectively.

#### **Selection of Grant Thornton LLP**

On September 12, 2005, the Audit Committee of the Board of Directors of the Company engaged Grant Thornton LLP as the Company's independent registered public accounting firm for the fiscal year ended December 31, 2005. From January 1, 2003 through September 12, 2005, the Company did not consult with Grant Thornton regarding any of the matters or events set forth in Item 304(a)(2) of Regulation S-K.

#### **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 the Company's independent registered public accounting firm. Abstentions will have the effect of a vote against the ratification of Grant Thornton LLP as the Company's independent registered public accounting firm. Broker non-votes will have no effect on the outcome of the vote.

**The Audit Committee and the Board of Directors Recommends a vote FOR the Ratification of Grant Thornton LLP as the Company's Independent Registered Public Accounting Firm for the year ending December 31, 2007**

## MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

### Board of Directors

During 2006, the Board of Directors met five times. Each director attended at least 75% of the aggregate of the total number of regular and special meetings of the Board of Directors that were held in 2006. On average, director attendance for meetings of the Board of Directors was 96%. During 2006, the Board of Directors had an Audit Committee, a Compensation Committee, and a Governance and Nominating Committee. Each director attended at least 75% of the total number of committee meetings of the Board of Directors on which he served in 2006, except for Mr. Waterhouse, who attended three of the five meetings of the Governance and Nominating Committee held in 2006. On average, director attendance for committee meetings was 94%. We do not require director attendance at our annual meeting of stockholders, unless held in conjunction with a Board of Directors or committee meeting. All nine of the directors attended the 2006 Annual Meeting of Stockholders on May 2, 2006.

### Audit Committee

The Company has a separately-designated standing Audit Committee of the Board of Directors, consisting of Messrs. Whitney (chairman), Richardson, Grossi, and Miller, which is responsible for overseeing the quality and integrity of the accounting, auditing, and financial reporting practices of the Company, the audits of the financial statements of the Company, and such other duties as directed by the Board of Directors. The Audit Committee's role includes a particular focus on the qualitative aspects of financial reporting to stockholders, on the Company's processes to manage business and financial risk, and for 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 resolution of disagreements between management and the independent registered public accounting firm regarding financial reporting) engaged to prepare or issue an audit report on the financial statements of the Company or perform other audit, review or attest services for the Company. Effective January 1, 2006, the Audit Committee also serves as our Qualified Legal Compliance Committee, established in response to the Sarbanes-Oxley Act of 2002. The Audit Committee met four times during 2006.

The Board of Directors has adopted and amended from time to time a charter for the Audit Committee to authorize expanded powers consistent with the provisions of the Sarbanes-Oxley Act of 2002 and other requirements. A copy of this charter was attached to the Proxy Statement for the 2004 Annual Meeting of Stockholders as Exhibit A and is posted on the Digimarc website, [www.digimarc.com](http://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 as set forth in Marketplace Rules 4200 and 4350(d) of the National Association of Securities Dealers, Inc. and applicable SEC rules; that each of Bernard Whitney, Brian J. Grossi, James T. Richardson and William J. Miller has the requisite financial sophistication called for by Marketplace Rule 4350(d) of the National Association of Securities Dealers, Inc.; and that each of Bernard Whitney and James T. Richardson (a) has been designated as, and has the requisite attributes of, an Audit Committee financial expert in compliance with Item 407(d)(5) of Regulation S-K and (b) is independent as set forth in Marketplace Rules 4200 and 4350(d).

### Compensation Committee

The Compensation Committee, consisting of Messrs. Grossi (chairman), Monego, and Roth, has the authority and responsibility to approve the Company's overall compensation strategy, review, establish and approve executive compensation, administer the annual and long-term compensation plans, and review and make recommendations to the Board of Directors with respect to director compensation, as well as such other duties and functions as directed by the Board of Directors from time to time or as are consistent with its charter, the Company's Amended and Restated Bylaws, as amended, and governing law, rules and

regulations. The Compensation Committee's role includes a particular focus on the compensation of executive officers and non-employee directors of the Company and the administration of the stock incentive plans and significant employee benefit programs of the Company. The Compensation Committee may delegate responsibilities to subcommittees of the Compensation Committee, as it deems necessary and appropriate.

The Compensation Committee met five times during 2006. The Compensation Committee has a written charter, a copy of which is available on the Digimarc website, [www.digimarc.com](http://www.digimarc.com) on the Corporate Governance page. The Board of Directors has determined that all members of the Compensation Committee are (a) independent as that term is defined in Marketplace Rule 4200 of the National Association of Securities Dealers, Inc., (b) non-employee directors as that term is defined under Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, and (c) outside directors as defined under Section 162(m) of the Internal Revenue Code of 1986, as amended.

### **Governance and Nominating Committee**

The Governance and Nominating Committee, consisting of Messrs. Smith (chairman), Monego, Roth, and Waterhouse, has been delegated responsibility for overseeing the quality and integrity of the corporate governance practices of the Company. The Governance and Nominating Committee's role included the review, monitoring, and general oversight regarding corporate policies and procedures involving corporate governance and compliance with significant legal, ethical, and regulatory requirements. The Governance and Nominating Committee is directly responsible for oversight of the Company's corporate and other compliance programs. 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 the Company.

The Governance and Nominating Committee also has responsibility for optimizing the composition, competence and integrity of the Board of Directors and its committees by searching for and recommending individuals for election to the Board of Directors, and such other duties and functions as directed by the Board of Directors from time to time or as were consistent with its charter, the Company's Amended and Restated Bylaws, as amended, and governing law, rules and regulations. The Governance and Nominating Committee's role includes responsibility for development of the Board of Directors, including the need to attract and elect independent members of the Board of Directors with expertise in areas supportive of and consistent with the strategic initiatives of the Company. The Governance and Nominating Committee is directly responsible for identifying, screening and recruiting individuals qualified to become members of the Board of Directors.

The Governance and Nominating Committee met five times during 2006. The Board of Directors adopted a written charter for the Governance and Nominating Committee, a copy of which is posted on Digimarc's website at [www.digimarc.com](http://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 Marketplace Rule 4200 of the National Association of Securities Dealers, Inc. and that the Committee has a formal written policy addressing the nominating process (attached as an Exhibit to the Governance and Nominating Committee charter), which is available on the Company's website at [www.digimarc.com](http://www.digimarc.com). Pursuant to its written policy addressing the nominating process, the Governance and Nominating Committee encourages submission of and will consider nominees recommended by stockholders. Written nominations for consideration by the Governance and Nominating Committee should be addressed to the Governance and Nominating Committee of the Company and mailed to the attention of Robert P. Chamness, Secretary, Digimarc Corporation, 9405 S.W. Gemini Drive, Beaverton, Oregon 97008.

**Committee Assignments**

The Committee assignments of the non-employee directors of the Board as of the date of this Proxy Statement are as follows:

<b>Non-Employee Directors</b>	<b>Audit</b>	<b>Governance and Nominating</b>	<b>Compensation</b>	<b>Special Litigation</b>
Philip J. Monego, Sr.				