

Digimarc CORP
Form DEF 14A
March 21, 2019

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

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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)

(Name of person(s) filing proxy statement, if other than the registrant)

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- (3) Filing Party:
- (4) Date Filed:

DIGIMARC CORPORATION

9405 S.W. Gemini Drive

Beaverton, Oregon 97008

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON APRIL 30, 2019

To the Shareholders of Digimarc Corporation:

Notice is hereby given that the 2019 Annual Meeting of Shareholders (the Annual Meeting) of Digimarc Corporation, an Oregon corporation (Digimarc or the Company), will be held on April 30, 2019, 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 six directors for a term of one year (Proposal No. 1);
- 2. Ratification of Appointment of Independent Registered Public Accounting Firm.** To ratify the appointment of KPMG LLP as Digimarc's independent registered public accounting firm for the year ending December 31, 2019 (Proposal No. 2);
- 3. Advisory Vote to Approve Executive Compensation.** To approve, by nonbinding vote, the compensation paid to our executive officers (Proposal No. 3);
- 4. 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 1, 2019 as the record date for determining the shareholders entitled to notice of and to vote at the Annual Meeting or any adjournment or postponement of the Annual Meeting.

We are making our proxy materials available to our shareholders 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 21, 2019, we will mail our shareholders a notice containing instructions on how to access our 2019 proxy statement and 2018 annual report to shareholders 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 meeting materials electronically.

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,

Robert P. Chamness

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Secretary

Beaverton, Oregon

March 21, 2019

DIGIMARC CORPORATION

PROXY STATEMENT FOR 2019 ANNUAL MEETING OF SHAREHOLDERS

General Information

The Board of Directors of Digimarc Corporation, an Oregon corporation (Digimarc, we or our), is soliciting proxies to be used at the annual meeting of shareholders (the Annual Meeting) to be held on April 30, 2019, 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. Notice of, and electronic access to, this proxy statement, the form of proxy and our 2018 annual report to shareholders are first being provided to shareholders on or about March 21, 2019. 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 1, 2019 as the record date (the Record Date) for determining the shareholders entitled to notice of, and to vote at, the Annual Meeting. As of the close of business on the Record Date, 12,134,857 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. There must be a quorum for the Annual Meeting to be held. The required quorum for the Annual Meeting is a majority of the shares outstanding, present either in person or by proxy. Our Inspector of Elections will tabulate votes cast by proxy or in person at the Annual Meeting.

Internet Availability of Proxy Materials

Pursuant to rules adopted by the Securities and Exchange Commission (the SEC), we are providing access to our proxy materials over the Internet. Accordingly, we are sending a Notice of Internet Availability of Proxy Materials (the Notice) to our shareholders of record and beneficial owners. All shareholders will have the ability to access the proxy materials on the website referred to in the Notice or request to receive a printed set of the proxy materials. Instructions on how to access the proxy materials over the Internet or to request a printed copy may be found in the Notice. In addition, shareholders may request to receive proxy materials in printed form by mail or electronically by email on an ongoing basis. 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.

Our proxy materials include this proxy statement and our annual report to shareholders for the year ended December 31, 2018, 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.

How to Vote

Shares held directly in your name as the shareholder of record may be voted in person at the annual meeting. If you choose to do so, please bring your proxy card or proof of identification. Even if you plan to attend the annual meeting, we recommend that you vote your shares in advance as described below so that your vote will be counted if you later decide not to attend the annual meeting.

Shares held in street name may be voted in person by you only if you obtain a signed proxy from the record holder giving you the right to vote the shares.

If you hold shares directly as the shareholder of record, you may vote your shares by following the instructions set forth on the proxy card. If you hold shares beneficially in street name, you may vote your shares by following the instructions set forth in the notice provided by your broker, bank, trust, or other holder of record. In most cases, you may be permitted to submit your voting instructions by mail, by telephone, or via the Internet by following the instructions in the proxy card. You may access your proxy materials and proxy card online by accessing the www.proxyvote.com website and entering your 12-digit control number found on the notice that you received. The voting procedures are designed to comply with Oregon law, to authenticate the shareholder's identity and to allow shareholders to vote their shares and confirm that their voting instructions have been properly recorded.

Revocability of Proxy

You may change your proxy instructions at any time prior to the vote at the annual meeting. You may accomplish this by entering a new vote by Internet, by telephone, by delivering a written notice of revocation to the corporate secretary of Digimarc, by submitting a new proxy card or new voting instruction card bearing a later date (which automatically revokes the earlier proxy instructions) or by attending the annual meeting and voting in person. Attendance at the annual meeting will not cause your previously granted proxy to be revoked unless you specifically so request. If your shares are held in a stock brokerage account or by a bank or other nominee, you must obtain a legal proxy from your broker or other nominee authorizing you to vote your shares at the annual meeting.

Any written notice revoking a proxy should be sent to Digimarc Corporation, Attention: Robert P. Chamness, Executive Vice President, Chief Legal Officer and Secretary, 9405 SW Gemini Drive, Beaverton, Oregon 97008, or hand delivered to the Secretary at or before the vote at the annual meeting.

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.

Vote Required: Treatment of Abstentions and Broker Non-Votes

Abstentions are shares that abstain from voting on a particular matter. 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 those shares on a particular matter. Abstentions and 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.

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The following chart describes the proposals to be considered at the meeting, the vote required to elect directors and to adopt each other proposal, and the manner in which votes will be counted:

Proposal	Voting Options	Vote Required to Adopt the Proposal	Effect of Abstentions	Effect of Broker Non-Votes
Election of directors	For or withhold on each nominee.	Directors are elected by a plurality of the votes cast by the shares entitled to vote in the election. The six candidates who receive the greatest number of votes will be elected directors.	Not counted as votes cast and therefore no effect.	Not counted as votes cast and therefore no effect.
Ratification of selection of KPMG LLP	For, against, or abstain.	The votes cast in favor of the proposal exceed the votes cast opposing the proposal.	Not counted as votes cast and therefore no effect.	Brokers have discretion to vote.
Advisory vote to approve executive compensation	For, against, or abstain.	The votes cast in favor of the proposal exceed the votes cast opposing the proposal.	Not counted as votes cast and therefore no effect.	Not counted as votes cast and therefore no effect.

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 bylaws authorize the number of directors to be set by resolution of the Board of Directors. Our Board of Directors has fixed the number of directors at six. Six directors are to be elected by the holders of common stock at the Annual Meeting. These directors will each serve a one-year term that will expire at the 2020 annual meeting of shareholders, or until a successor has been elected and qualified. The proxy holders named in the accompanying proxy or their substitutes will vote the proxy at the Annual Meeting or any adjournment or postponement of the Annual Meeting for the election of the six nominees as directors unless the shareholder of record instructs that their authority to vote is withheld. Shares held through a broker or other nominee who is a New York Stock Exchange member organization will only be voted in favor of the director nominees if the shareholder provides specific voting instructions to the broker or other nominee to vote the shares in favor of that proposal.

Following is information about our Board of Directors nominees for election as a director as of March 1, 2019. Each person listed below was nominated by the Company. There are no arrangements or understandings between any director and any other person pursuant to which the director is or was to be selected as a director, or pursuant to which the director receives compensation or any other payments from any third party for service as a director. There is no family relationship between any director and any executive officer of Digimarc.

Director Nominees	Age	Director Since
Bruce Davis	66	2008
Gary DeStefano	62	2016
Richard L. King	69	2015
James T. Richardson	71	2008
Andrew J. Walter	50	2016
Bernard Whitney	62	2008

The Board of Directors believes that our current directors provide the diversity of experience and skills necessary for a well-functioning board. All of our directors have substantial senior executive level experience. The Board of Directors values highly the ability of individual directors to contribute to a constructive board environment and the board believes that the current board members perform in such a manner. Set forth below is a more complete description of each director's background, professional experiences, qualifications and skills.

Bruce Davis was elected Chairman of the Board of Directors and named our Chief Executive Officer on June 18, 2008. He served the former Digimarc Corporation, our former parent company, (Old Digimarc) as its Chief Executive Officer since 2001 and a director since December 1997, as its chairman of the Board of Directors since May 2002, and as its 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.

Mr. Davis brings strategic, operational and transactional expertise to the Board of Directors. He has broad technological and market knowledge, establishes the strategic direction for the Company, has over 20 years of Digimarc executive leadership experience, has been an architect of the Company's intellectual property portfolio, and had over 25 years of broad-based entrepreneurial, start-up, legal and CEO experience prior to joining Digimarc. For more information on Mr. Davis's background and experience, please see the biographical information posted on our website at www.digimarc.com on the Company, Executive Officers page.

Gary DeStefano was elected to our Board of Directors in October 2016. Mr. DeStefano serves as a member of the Governance and Nominating Committee, the Market Development Committee, and as the Chair of the Compensation Committee. Mr. DeStefano had 25 years of senior management experience at Nike, Inc. (NYSE: NKE), a global footwear and apparel company, which included serving as Nike's President of Global Operations

for seven years until 2013. Mr. DeStefano has served on a number of public and private boards, including on the Board of Directors of Umpqua Holding Corp. (Nasdaq: UMPQ); the Board of Regents and the University Relations and Academic Affairs committee of the University of Portland; and the Board of Directors of the Nike Foundation. Mr. DeStefano received a B.S. from the University of New Hampshire and an M.B.A. from Southern New Hampshire University.

Mr. DeStefano brings strategic, international, operational and transactional expertise to the Board of Directors. Prior to joining our Board, as Nike's President of Global Operations, Mr. Stefano was instrumental in delivering record growth and overseeing all business related activities across 190 countries worldwide with responsibility for approximately 80 percent of the profit and loss for Nike, Inc. Throughout his Nike career, Mr. DeStefano led several transformational initiatives, including the revival of Nike's premium high-end segment, reorganization of the Asia Pacific business during the 1996 Far East economic crisis, and standardization of Nike's global order entry and sales force automation system.

Richard L. King was elected to our Board of Directors in May 2015. Mr. King serves as a member of the Compensation Committee, the Market Development Committee and as the Chair of the Governance and Nominating Committee. Mr. King is a retired corporate executive with 46 years of experience in the retail food and drug industry. He has served as a consultant and as an Advisory Board Member of Encore Associates Inc. Mr. King also served as the Chief Executive Officer of TrueBlue, Inc. (formerly Labor Ready, Inc.), from May 2000 to October 2001. He began his career with Albertsons, Inc., a retail and grocery company, where he held several senior level management positions, including as its President and Chief Operating Officer from February 1996 to June 1999. As President and Chief Operating Officer of Albertsons, Mr. King was responsible for a \$16 billion operation with nearly 1,000 stores and over 100,000 employees. Mr. King also served as a member of the Board of Directors of TrueBlue, Inc. (NYSE: TBI), a provider of staffing and workforce management solutions, from May 2000 to October 2001, Albertsons, Inc. from February 1996 to June 1999, and TJ International, Inc., an engineered lumber manufacturing company, from May 1996 to January 2000. He has also served as a member of the Monsanto Advisory Board and as a director of a number of private and non-profit entities and associations, including the Western Association of Food Chains. Mr. King received a B.S. degree in Business from Utah State University. He is a graduate of the Stanford Executive Program.

Mr. King brings executive, management, financial, compensation, operations and industry expertise to the Board of Directors, particularly in the fields of the retail food and drug industries. His expertise includes effectively managing the process of change and creating successful business solutions to meet the needs of retailers, manufacturers and consumer packaged goods companies. In addition to his leadership roles at Albertsons and TrueBlue, Mr. King served in a variety of senior executive capacities for Associated Food Stores, including as President of Associated Fresh Market and Associated Retail Stores. Mr. King brings a wealth of relevant retail and business experience to our Board, and his expertise is well aligned with Digimarc's key growth initiatives.

James T. Richardson was elected to our Board of Directors in July 2008, and has served as Lead Director since that time. He served Old Digimarc as a director since March 2003. Mr. Richardson serves as a member of the Audit Committee. Mr. Richardson has served as an officer and director of and consultant to companies in the high-technology sector. Mr. Richardson was a director (and former chairman of the board of directors and the former chairman of the Audit Committee) of FEI Company (listed on Nasdaq as FEIC until acquired), a diversified scientific instruments company, until its sale in 2016. He previously served as a director and audit committee chair of Tripwire, Inc., a network security company, from 2003 to 2011; as a director of Epicor Software Corporation (Nasdaq: EPIC), a global business software company, from 2008 to 2010; and as a director of Plumtree Software, Inc. (Nasdaq: PLUM), an enterprise software company, from 2003 to 2005. 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. Mr. Richardson is a Board Leadership Fellow certified by the National Association of Corporate Directors (NACD).

Mr. Richardson provides the local business community perspective, and brings public company operational, financial, legal and industry expertise to the Board of Directors, particularly in the high technology and financial areas. Prior to joining our Board, Mr. Richardson 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, including as senior vice president and chief financial officer at WebTrends Corporation, a website analytics company, senior vice president corporate operations and chief financial officer at Network General Corporation, a developer of network management software, vice president finance and administration and chief financial officer at Logic Modeling Corp., a semiconductor software company, and vice president finance and administration and chief financial officer at Advanced Logic Research, Inc., a server and systems company. These experiences are particularly germane to the strategic and operational oversight, transactional and risk analysis, and legal and financial initiatives of the Company.

Andrew J. Walter was elected to our Board of Directors in October 2016. Mr. Walter serves as a member of the Audit Committee, the Compensation Committee and as the Chair of the Market Development Committee. Mr. Walter has more than 30 years of operations, information technology and shared services experience, including 26 years at The Procter & Gamble Company (NYSE: PG), a consumer goods company. Mr. Walter has served on a number of boards, including the GS1 US Board of Governors, an organization that develops and maintains global standards for business communication, as Chair for their technology committee. He is currently serving as an advisory board member or strategic advisor for various privately held technology companies and as Trustee and Vice Chair for the Ovarian Cancer Alliance of Greater Cincinnati. Mr. Walter received his B.C.S. from the University of Cincinnati.

Mr. Walter brings strategic, international, operational and transactional expertise to the Board of Directors. Prior to joining our Board, Mr. Walter enjoyed a long tenure at P&G, where he most recently led their Global Business Services and IT Global Commercial Services and Delivery organization until August 2016, with more than 1,500 IT and multifunctional professionals and more than 5,000 partner resources. He has deep expertise in integration of emerging and core commercial technologies, supply chain management, sales and marketing, and consumer and business analytics.

Bernard Whitney was elected to our Board of Directors in July 2008. Mr. Whitney serves as the Chair of the Audit Committee and as a member of the Governance and Nominating Committee. He served Old Digimarc as a director since June 2005. Mr. Whitney is a retired corporate executive with over 35 years of experience in the high technology and finance sectors. Since 2009, he has been a partner at FLG Partners LLC, a leading CFO and Board advisory firm in Palo Alto, California. He has also served as a director for a number of private and non-profit entities. He previously served as a director and audit committee chair of Plumtree Software, Inc. (Nasdaq: PLUM), an enterprise software company, from 2000 to 2005. Mr. Whitney received a B.S. in business administration, majoring in finance, from California State University Chico, and an M.B.A. from San Jose State University.

Mr. Whitney brings public company financial, operational and industry expertise to the Board of Directors, particularly in the high technology and financial areas. Prior to joining our Board, Mr. Whitney was vice president and chief financial officer of Handspring, Inc., a handheld computer and wireless communications manufacturer, executive vice president and chief financial officer of Sanmina Corporation, a high-end data communications and telecom manufacturer, vice president of finance and manufacturing operations and corporate controller of Network General Corporation, a developer of network management software, and served in a number of senior financial management positions at Conner Peripherals, Inc., a disk and tape drive manufacturer. These experiences are particularly germane to the financial performance, audit, reporting, internal control and risk assessment activities of the Company.

Determination of Independence

Our Board of Directors believes that maintaining a strong, independent group of directors is important for good governance, and all but one of our directors qualify as independent. The Board of Directors has determined that

each of Messrs. DeStefano, King, Richardson, Whitney, and Walter, collectively representing all outside members and a majority of our Board of Directors, is independent as that term is defined by Nasdaq Listing Rule 5605. There were no undisclosed transactions, relationships or arrangements involving any of the independent directors of Digimarc that were considered by the Board of Directors in connection with the determination of whether any particular director is independent. There is a disclosed familial relationship between Mr. Richardson and Ryan James that was evaluated when determining Mr. Richardson's independence.

Vote Required

If a quorum is present, the six 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.

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 KPMG LLP as Digimarc's independent registered public accounting firm to audit our financial statements and internal controls over financial reporting for the year ending December 31, 2019. Although ratification by shareholders is not required by law, the Board of Directors has determined that it is desirable to request ratification of this appointment by the shareholders. Notwithstanding its appointment, 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 shareholders.

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

AUDIT FEES

The following table presents aggregate fees billed for audit and other professional services rendered by KPMG LLP for the years ended December 31, 2017 and December 31, 2018.

	Fiscal Year 2018	Fiscal Year 2017
Audit Fees(1)	\$ 408,238	\$ 463,762
Audit-Related Fees(2)	\$	\$
Tax Fees(3)	\$	\$
All Other Fees(4)	\$	\$
Total Fees	\$ 408,238	\$ 463,762

- (1) Audit Fees consist of fees for professional services rendered for the audit of our 2017 and 2018 annual financial statements, including the audit of internal control over financial reporting, and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by our independent auditors in connection with regulatory filings, including comfort letters and consents.
- (2) Audit-Related Fees consist of fees billed for assurance and related services rendered that are reasonably related to the performance of the audit or review of our financial statements and are not reported under Audit Fees. No such fees were incurred in 2017 or 2018.
- (3) Tax Fees consist of fees billed for professional services rendered for tax research and consulting services. No such fees were incurred in 2017 or 2018.
- (4) All Other Fees consist of fees related to licensee audits and similar activities. No such fees were incurred in 2017 or 2018.

Pre-Approval Policy. The Audit Committee pre-approves the Audit, Audit-Related, Tax and All Other services performed by the independent registered public accounting firm. The Audit Committee has adopted a policy for the pre-approval of services provided by the independent registered public accounting firm 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 firm 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, amounts, or type of services require specific pre-approval. No services were provided by the independent auditors under the categories of Audit-Related Fees, Tax Fees or All Other Fees in 2017 or 2018.

Vote Required

If a quorum is present, the appointment of KPMG LLP as our independent registered public accounting firm will be ratified if the votes cast in favor of this proposal exceed the votes cast opposing this proposal.

The Board of Directors recommends a vote FOR the ratification of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2019.

ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

(Proposal No. 3)

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) enables Digimarc shareholders to vote to approve, on an advisory or non-binding basis, the compensation of our named executive officers as disclosed in this proxy statement. This advisory vote on executive compensation is referred to as a say-on-pay vote. We will offer Digimarc shareholders a say-on-pay vote every year until the next required advisory vote on the frequency of the shareholder votes on executive compensation.

We encourage shareholders to read the Executive Compensation sections of this proxy statement for a more detailed discussion of our compensation programs and policies, the compensation and governance related action taken in 2018 and the compensation awarded to our named executive officers. Mr. Davis is in the second year of his three-year employment agreement, and all changes in his compensation were made according to that agreement. All other officers are compensated in a manner consistent with the processes and philosophy set forth below.

Digimarc's goal for its executive compensation program is to attract, retain, motivate and appropriately reward the Company's executive officers, as well as to align the interests of the Company's executive officers with those of Digimarc shareholders. Digimarc seeks to accomplish this goal in a way that rewards performance and is aligned with its shareholders' long-term interests. It has chosen to utilize time-based restricted stock that vests over a three- or four-year period, which provides an increasing return to executives to the extent that the market price of our common stock appreciates, thereby creating an incentive to increase shareholder value over a longer term. Digimarc believes that its executive compensation program, which emphasizes long-term equity awards, satisfies this goal and is strongly aligned with the long-term interests of its shareholders.

At our 2018 annual meeting, our say on pay advisory proposal was not approved, with 42% of the votes cast by our shareholders voting in favor of the proposal. In response to this vote, the Compensation Committee has begun a review of all aspects of the compensation program. With respect to Mr. Davis, his employment agreement expires in 2020 and no changes are anticipated prior to expiration. As for the other executive and non-executive officers, for 2019, the Compensation Committee generally froze salary and stock at 2018 levels, except for one officer who assumed materially broader responsibilities as part of a management reorganization and minor changes to the incentive compensation plans of individuals in the sales organization. In February 2019, the Compensation Committee adopted an incentive compensation recovery policy, described below, relative to financial restatements and inappropriate behavior.

In determining whether to approve this proposal, we believe that shareholders should consider the following:

Independent Compensation Committee. Executive compensation is reviewed and established by a Compensation Committee of the Board consisting solely of independent directors. The Compensation Committee meets in executive session, without executive officers present, in determining annual named executive officer compensation. The Compensation Committee receives data, analysis and input from an independent compensation consultant that does not perform any additional services for Digimarc's management.

New Incentive Compensation Recovery Policy. In February 2019, our Board of Directors adopted revised Corporate Governance Guidelines that provide that the Company, at the discretion of the Compensation Committee after it has considered the costs and benefits of doing so and to the extent permitted by applicable law, will seek to recover incentive compensation awarded or paid to an officer or employee for a fiscal period if the result of the performance measure upon which the award was based or paid is subsequently restated or otherwise adjusted in a manner that would reduce the size of the award or payment. In addition, if an officer or employee of the Company engaged in intentional misconduct that contributed to the award or payment to such officer or employee of a greater amount of incentive compensation than would have been paid or awarded in the absence of the misconduct, the Company may take other remedial and recovery action, as determined by the Compensation Committee in its discretion.

2018 Compensation. In 2018, except for payments made pursuant to sales incentive plans, no cash incentive bonus was offered or paid. Further, equity awards granted in 2018 were consistent with prior years, except for the CEO option grant made pursuant to his employment agreement.

Long-Term Incentive Equity Awards. The restricted stock granted in 2018 will provide an increasing return to executives to the extent that the market price of our common stock appreciates, thereby creating an incentive to increase shareholder value over a longer term.

No Perquisites. Our general policy is not to provide perquisites or other personal benefits to our named executive officers, other than those benefits provided for all other employees.

Stock Ownership Guidelines. Our executive officers are subject to the stock ownership guidelines described in our Report of the Governance and Nominating Committee of the Board of Directors under Stock Ownership Guidelines. Under our policy, Executive Officers are expected to have a stock ownership interest as a means of insuring that there is an alignment of interest with the shareholders. The Company believes that it is appropriate for the Executive Officers to hold stock in the Company sufficient to meet that objective, but not at a level that might discourage a qualified officer from serving. Our Executive Officers currently hold between 36,000 shares and 531,800 shares, which includes vested and outstanding stock options. The value of stock held by each executive officer materially exceeds one-year's salary and benefits of the respective officers.

Digimarc believes the compensation program for the named executive officers is instrumental in helping Digimarc achieve its strategic objectives and long-term financial performance. The price of our common stock has increased significantly since we became an independent publicly traded company in October 2008.

Advisory Vote

Digimarc requests shareholder approval of the compensation of its named executive officers as disclosed pursuant to the SEC's compensation disclosure rules (which disclosure includes the compensation tables and the narrative disclosures that accompany the compensation tables).

Although this vote is advisory and non-binding on the Compensation Committee, the Board or the Company, the Board and the Compensation Committee, which is responsible for designing and administering Digimarc's executive compensation program, value the opinions expressed by shareholders in their vote on this proposal and will continue to consider the outcome of the vote when making future compensation policies and decisions for named executive officers.

Vote Required

If a quorum is present, the compensation of Digimarc's named executive officers will be approved on a non-binding basis if the votes cast in favor of this proposal exceed the votes cast opposing this proposal.

The Board of Directors recommends a vote FOR the approval, on a non-binding basis, of the compensation of Digimarc's named executive officers as disclosed in this proxy statement pursuant to the compensation disclosure rules of the SEC.

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 2018. Each director elected at the 2018 annual meeting of shareholders attended 100% of the aggregate number of meetings of the Board of Directors and of any committee on which he served in 2018. We encourage but do not require director attendance at our annual meeting of shareholders. Because we have experienced low turnout from our non-employee shareholders at our annual meeting of shareholders over the past five years, none of the directors attended Digimarc's annual meeting of shareholders held on April 30, 2018.

Board Leadership and Structure

Bruce Davis, our Chief Executive Officer, also serves as Chairman of the Board of Directors. James Richardson, an independent director, has served as Lead Director of the Board of Directors since he was appointed to this position in July 2008. At the present time, the Board believes that Digimarc and its shareholders are best served by having the Chief Executive Officer also serve as Chairman of the Board of Directors. We have determined that this structure is appropriate in light of the relatively small size of our Company and corresponding size of our Board of Directors, the complexity of our business, and the skills and experiences of our Chief Executive Officer in the industry in which we operate. At the same time, the Board of Directors has been, and continues to be, a strong proponent of Board independence. As a result, Digimarc's corporate governance structures and practices include several additional independent oversight mechanisms. Currently, all of our directors other than the Chairman and Chief Executive Officer, including each member of the Board's Audit, Compensation, and Governance and Nominating Committees, are independent directors under the Nasdaq listing rules.

The Board believes that Digimarc's corporate governance principles and policies ensure that strong and independent directors will continue to effectively oversee Digimarc's management and key issues related to long-range business plans, long-range strategic matters and risks, and integrity. The independent directors meet regularly in executive session chaired by the Lead Director without the Chairman and Chief Executive Officer or other management present. In addition to presiding over these executive sessions, the Lead Director serves as the principal liaison between the independent directors and management and consults with the Chairman of the Board of Directors regarding information to be sent to the Board of Directors, meeting agendas and meeting schedules. Furthermore, each director is encouraged to suggest items for the Board agenda, and to raise at any Board meeting subjects that are not on the agenda for that meeting. We believe that the independent Lead Director's significant, clearly delineated duties and responsibilities are highly effective in providing oversight of management and direct accountability to shareholders. Finally, our corporate governance principles provide that the Board and all Board committees, including those whose members are exclusively independent directors, may seek financial, legal or other expert advice from a source independent of management, with funding provided by Digimarc.

The Board's Role in Risk Oversight

Digimarc's management is responsible for identifying, assessing and managing the material risks facing Digimarc. The Board of Directors has historically performed an important role in the review and oversight of risks, and generally oversees Digimarc's risk management practices and processes, with a strong emphasis on financial and entity level controls. The Board has delegated primary oversight of the management of (i) financial and accounting risks to the Audit Committee, (ii) compensation risk to the Compensation Committee and (iii) governance and compliance risk related to personnel, ethics, related-party transactions, conflicts of interests,

litigation and other entity level risks to the Governance and Nominating committee. Each of these committees reviews these specific risk areas on a quarterly basis and routinely reports to the Board regarding the committee's oversight duties and findings.

To permit the Board and its committees to perform their respective risk oversight roles, individual members of management who supervise Digimarc's risk management report directly to the Board or the relevant committee of the Board responsible for overseeing the management of specific risks, as applicable. The Board and each of its committees have the ability to engage outside legal and professional advisors to assist the Board or the committee in its oversight responsibilities. For this purpose, management has a high degree of access and communication with independent directors. In addition, the Board of Directors oversees and participates annually in a process of risk assessment that is designed to identify the most salient enterprise risks facing Digimarc's business and to evaluate how the Company's corporate strategies align with those risks.

Each year Digimarc's executive management team prepares for the Board an initial review of the various types of risks that can affect the operations and financial performance of the Company. The management team identifies and categorizes the key strategic, financial, operational and legal and compliance risks facing the Company and then ranks these risks as to the level of risk posed, based upon management's assessment of the risk relative to Digimarc's business, personnel, internal processes, policies and controls, and the operating environment of the Company. Taking into consideration Digimarc's risk controls and mitigation plans, the Board reviews management's presentation to identify and assess the degree and likelihood of each risk. Having a Chairman and Chief Executive Officer, a Lead Director, and directors who are both knowledgeable about and sensitive to the market and industry risks facing our business ensures that risk is reviewed from multiple alternative vantage points.

Finally, the Board oversees organizational structure, policies and procedures at Digimarc, such as the code of business conduct and other internal policies and guidelines designed to support Digimarc's corporate governance guidelines and to comply with the laws, rules and regulations that apply to Digimarc's business operations. For example, employees may anonymously report suspected violations of any applicable law by any employee or agent, questionable accounting or auditing matters, or other ethical or legal matters pursuant to these established policies and procedures.

Board Committees

The Board of Directors had three standing committees for 2018: an Audit Committee, a Compensation Committee and a Governance and Nominating Committee. The members of these committees for 2018 are set forth in the following table:

Non-Employee Directors	Audit	Governance & Nominating	Compensation
Gary DeStefano		Member	Chair
Richard L. King		Chair	Member
James T. Richardson	Member		
Andrew J. Walter	Member		Member
Bernard Whitney	Chair	Member	

In February 2019, the Board of Directors established a Market Development Committee to bring to bear the market development expertise of the subject matter experts on the Board of Directors. The Board appointed Gary DeStefano, Richard L. King and Andrew J. Walter to the Committee and designated Mr. Walter as the Chair.

Audit Committee

We have a standing Audit Committee of the Board of Directors, consisting in 2018 of Messrs. Whitney (chairman), Richardson and Walter, that is responsible for overseeing the quality and integrity of our accounting,

auditing, and financial reporting practices, the audits of our financial statements, internal control over financial reporting, 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 shareholders, 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 engaged to issue an audit report on our financial statements and internal controls over financial reporting or to perform other audit, review or attestation services for us. The Audit Committee is responsible for resolving any disagreements between management and the independent registered public accounting firm regarding financial reporting. The Audit Committee also serves as our Qualified Legal Compliance Committee.

The Audit Committee met four times during 2018. The Board of Directors has adopted a charter for the Audit Committee, a copy of which is posted on our website, www.digimarc.com, on the Company, Company Overview, Corporate Governance page.

The Board of Directors has determined that each of the three members of the Audit Committee:

meets the requirements for independence set forth in Nasdaq Listing Rules 5605(a)(2) and 5605(c)(2) and applicable SEC rules; and

has the requisite financial sophistication called for by Nasdaq Listing Rule 5605(c)(2).

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

Compensation Committee

We have a standing Compensation Committee, consisting in 2018 of Messrs. DeStefano (chairman), King and Walter, that has the authority and responsibility to:

review, establish and approve, on an annual basis, the compensation of the Chief Executive Officer and other executive officers of the Company;

administer our annual and long-term compensation plans;

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

approve our overall compensation strategy;

review and discuss with management annual compensation matters, if applicable, and recommend to the Board inclusion of a discussion and analysis of compensation in the annual report on Form 10-K and the proxy statement, if applicable;

create and approve a Compensation Committee Report, if applicable;

review and approve compensation agreements and arrangements between us and our executive officers; and

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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 Board of Directors has determined that all members of the Compensation Committee are independent as that term is defined in Nasdaq Listing Rules 5605(a)(2) and 5605(d)(2) and outside directors in accordance with Internal Revenue Code Section 162(m).

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 equity incentive plans and significant employee benefit programs.

The Compensation Committee met five times in 2018. The Compensation Committee has a written charter, a copy of which is available on our website, www.digimarc.com, on the Company, Company Overview, Corporate Governance page.

The Compensation Committee may, under its charter, delegate any of its responsibilities to subcommittees of the Committee as necessary and appropriate. The Committee has delegated authority to Messrs. Davis and Chamness, acting jointly, so long as each is an executive officer of Digimarc, to grant options (but not restricted stock) to existing and new employees and consultants of Digimarc pursuant to a predetermined annual grant budget, limitations on the number of shares reserved for issuance that can be issued in any one year, and additional guidance or limitations established by the Compensation Committee. No such options were awarded in 2018.

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.

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 (an AON Hewitt Company), 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. Radford provides compensation information to management on market compensation classifications and trends from time to time, but does not have a material additional relationship outside of the services that it provides to the Compensation Committee. The Compensation Committee has determined that Radford's work has not raised any conflict of interest.

Governance and Nominating Committee

We have a standing Governance and Nominating Committee, consisting in 2018 of Messrs. King (chairman), DeStefano and Whitney. The Governance and Nominating Committee met four times in 2018. 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 optimizing the composition and competence of the Board of Directors and its committees by searching for and recommending individuals for election to the Board of Directors. The Board of Directors has adopted a written charter for the Governance and Nominating Committee, a copy of which is posted on our website at www.digimarc.com on the Company, Company Overview, 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 Listing Rule 5605(a)(2).

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 Board of Directors may from time to time assign to the Governance and Nominating Committee additional duties and functions consistent with its charter, our Bylaws and governing law.

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 Company, Company Overview, 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 shareholders, and will consider any director candidates recommended by our shareholders, 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 recommendations from shareholders must be provided in writing, include prescribed information, and be sent to Digimarc's Secretary at the address of our principal executive offices. In evaluating a potential candidate's qualifications 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 or 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 shareholders, involves an internal assessment of the qualifications and performance of incumbent members of the Board of Directors, 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. The Governance and Nominating Committee will identify director nominees who have the highest personal and professional integrity, have demonstrated exceptional ability and judgment, and, together with other director nominees and members, will effectively serve the shareholders' long-term interests and contribute to our overall corporate goals. In connection with the selection of nominees for director, consideration will be given to the Board's overall balance of diversity of perspectives, backgrounds, and experiences; however, the Board has not adopted a formal diversity policy beyond the universal corporate policy that decisions involving people are made on the basis of job requirements, independent of an individual's race, color, national origin, gender, gender identity, sexual orientation, marital status, age, religion, military or veteran status, physical or mental disability, and/or any other status protected by law, and that there is no tolerance for discrimination of any sort on any protected basis. While small public companies historically have a more difficult time achieving Board diversity, during our last search for director candidates, we specifically sought out candidates that could enhance the diversity of our Board of Directors, with a focus on gender diversity. 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 shareholder 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.

Market Development Committee

In February 2019, the Board of Directors established a Market Development Committee to bring to bear the market development expertise of the subject matter experts on the Board of Directors. The Board appointed Gary DeStefano, Richard L. King and Andrew J. Walter to the Committee and designated Mr. Walter as the Chair. The Board of Directors intends to adopt a written charter for the Market Development Committee that will be posted on our website at www.digimarc.com on the Company Overview, Corporate Governance page.

Shareholder Communications with the Board of Directors

The Board of Directors encourages communication from shareholders. 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 shareholder.

Stock Ownership Guidelines

In July 2008, the Board of Directors adopted stock ownership guidelines for members of the Board of Directors and our executive officers. Under the amended director ownership guidelines, effective April 1, 2015, the non-employee members of the Board shall acquire and maintain at least the number of shares necessary to achieve a multiple of three times the annual cash retainer.

Director Resignation Upon Change of Employment

The Board of Directors also has adopted a policy that requires any director who experiences a substantial change in principal employment responsibility 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, two of which apply to our Chief Executive Officer, our Chief Financial Officer, our Controller and other finance personnel.

Our Corporate Governance Guidelines can be found on the Company, Company Overview, 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 Company, Company Overview, Corporate Governance page of our website at www.digimarc.com. The Code of Business Conduct applies to every officer, director and employee of Digimarc and its subsidiaries, and their immediate family members, and sets forth internal policies and guidelines designed to support and encourage ethical con