

DIGIMARC CORP
Form SC 14D9
July 03, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

SCHEDULE 14D-9

**SOLICITATION/RECOMMENDATION STATEMENT
UNDER SECTION 14(d)(4) OF THE
SECURITIES EXCHANGE ACT OF 1934**

DIGIMARC CORPORATION

(Name of Subject Company)

DIGIMARC CORPORATION

(Name of Person Filing Statement)

**Common Stock, Par Value \$0.001 Per Share
(including the associated preferred stock purchase rights)**

(Title of Class of Securities)

253807101

(CUSIP Number of Class of Securities)

**Bruce Davis
Chief Executive Officer and Chairman of the Board
Digimarc Corporation
9405 S.W. Gemini Drive
Beaverton, Oregon 97008
(503) 469-4800**

(Name, Address and Telephone Number of Person
Authorized to Receive Notices and Communications
on Behalf of the Person(s) Filing Statement)

With a copy to:

**Roy W. Tucker, Esq.
Perkins Coie LLP
1120 N.W. Couch Street, 10th Floor
Portland, Oregon 97209
(503) 727-2091**

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Check the box if the filing relates solely to preliminary communications made before the commencement of a tender offer.

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Item 1. Subject Company Information.

(a) Name and Address.

The name of the subject company to which this Solicitation/Recommendation Statement on Schedule 14D-9 (this "Schedule 14D-9") relates is Digimarc Corporation, a Delaware corporation ("Digimarc"). The address and telephone number of Digimarc's principal executive office are 9405 S.W. Gemini Drive, Beaverton, Oregon 97008, (503) 469-4800.

(b) Securities.

This Schedule 14D-9 relates to the outstanding shares of common stock, par value \$0.001 per share, together with the associated preferred stock purchase rights of Digimarc (collectively, the "Shares"). As of July 2, 2008, there were 22,510,533 Shares issued and outstanding and 6,697,331 Shares reserved and available for issuance upon, or otherwise deliverable in connection with, the exercise of outstanding options.

Item 2. Identity and Background of the Filing Persons.

(a) Name and Address.

Digimarc is filing this Schedule 14D-9. The information about Digimarc's business address and telephone number are set forth in Item 1(a) above and incorporated herein by reference.

(b) Tender Offer.

This Schedule 14D-9 relates to the tender offer by Dolomite Acquisition Co. ("Purchaser"), a Delaware corporation and a wholly owned subsidiary of L-1 Identity Solutions, Inc., a Delaware corporation ("L-1") to purchase all of the outstanding Shares at a purchase price of \$11.90 per Share (as such price may be adjusted in accordance with the Merger Agreement, the "Offer Price"), net to the seller in cash, without interest thereon and less any required withholding taxes, upon the terms and subject to the conditions set forth in the Offer to Purchase, dated July 3, 2008 (the "Offer to Purchase"), and in the related Letter of Transmittal (that, together with the Offer to Purchase, as each of the same may be amended or supplemented from time to time, constitutes the "Offer"). The Offer is being made in connection with an Amended and Restated Agreement and Plan of Merger, dated as of June 29, 2008, by and among L-1, Purchaser and Digimarc (as the same may be amended from time to time, the "Merger Agreement"), pursuant to which L-1 has agreed to acquire Digimarc, which following the Spin-Off (as defined below) will consist only of the identification systems business of Digimarc, for aggregate consideration of \$310,000,000. Accordingly, stockholders of Digimarc (the "Stockholders") will be eligible to receive consideration from L-1 pursuant to the Offer and shares in a new publicly-held company following the Spin-Off, which will hold Digimarc's digital watermarking business. The market value of the shares of the new publicly-held company will not be known until the shares start trading. The Offer Price does not include the value attributable to the Spin-Off and is based on an estimated 26,050,000 Shares outstanding, including 3,862,000 Shares estimated to be issued upon exercises of stock options to purchase Shares on or prior to the Spin-Off Record Date (as defined below). The Offer Price is subject to adjustment based on the total number of Shares outstanding after giving effect to the number of Shares issued upon exercise of Stock Options on or prior to the Spin-Off Record Date. The Offer, including adjustments to the Offer Price, is described in a Tender Offer Statement on Schedule TO (as amended or supplemented from time to time, the "Schedule TO"), filed by L-1 and Purchaser with the Securities and Exchange Commission (the "SEC") on July 3, 2008. Copies of the Offer to Purchase and Letter of Transmittal are filed as Exhibits (a)(1) and (a)(2), respectively, to this Schedule 14D-9.

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The Merger Agreement provides, among other things, that following the completion of the Offer and subject to the terms and conditions set forth therein, Purchaser will merge with and into Digimarc (the "Merger") and Digimarc will continue as the surviving corporation and a wholly owned subsidiary of L-1. In the Merger, each Share outstanding immediately prior to the effective time of the Merger (other than Shares held by L-1 or Purchaser, which Shares will be cancelled and will cease to exist, or stockholders who exercise appraisal rights under Delaware law with respect to their Shares) will be cancelled and converted into the right to receive \$11.90 or any greater per Share price paid in the Offer, without interest thereon and less any required withholding taxes. The Merger Agreement is more fully described in Section 11 of the Offer to Purchase, which also contains a discussion of the treatment of employee stock options, and is filed as Exhibit (a)(1) to this Schedule 14D-9.

Prior to the expiration of, and as a condition to, the Offer, Digimarc will contribute all of the assets and liabilities related to its digital watermarking business, together with all of Digimarc's cash, including cash received upon the exercise of Digimarc stock options (the "Spin-Off"), to DMRC LLC, a Delaware limited liability company. The equity interests of DMRC LLC will be distributed to Digimarc's stockholders as of the record date for the distribution, which is expected to be prior to the expiration of the Offer (the "Spin-Off Record Date"). Following the Spin-Off or the trust transfer described below, as applicable, DMRC LLC will merge with and into a wholly owned subsidiary, DMRC Corporation, a Delaware corporation, with DMRC Corporation continuing as the surviving company of such merger (the "DMRC Merger"), and each limited liability company interest of DMRC LLC will be converted into one share of DMRC Corporation common stock. After the Spin-Off and completion of the Merger, DMRC Corporation will change its name to Digimarc Corporation. In connection with the Spin-Off, DMRC Corporation filed a Registration Statement on Form 10 with the SEC on June 23, 2008 to register the shares of DMRC Corporation under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which Registration Statement on Form 10 must be declared effective by the SEC prior to effecting the Spin-Off; provided, however, that if at the time of the Spin-Off, the Registration Statement on Form 10 is not effective, all limited liability interests will be transferred to a newly-created trust for the benefit of the Stockholders as of the Spin-Off Record Date, and the trust will distribute shares of DMRC Corporation common stock to Stockholders as of the Spin-Off Record Date upon effectiveness of the Registration Statement on Form 10. The Spin-Off and related agreements are described in Section 12 of the Offer to Purchase.

As set forth in the Schedule TO, L-1's principal executive office is 1778 Broad Street, 12th Floor, Stamford, Connecticut 06901.

All information set forth in this Schedule 14D-9 or incorporated by reference into this Schedule 14D-9 about L-1, Purchaser or their respective affiliates, as well as actions or events respecting any of them, was obtained from reports or statements filed by L-1 or Purchaser with the SEC, including the Schedule TO and the Offer. Digimarc has not verified the accuracy or completeness of such information.

Item 3. Past Contacts, Transactions, Negotiations and Agreements.

Except as set forth in this Item 3, or in the Information Statement of the Digimarc attached to this Schedule 14D-9 as *Annex A* (the "Information Statement") or as incorporated by reference herein, as of the date hereof, there are no material agreements, arrangements or understandings or any actual or potential conflicts of interest between Digimarc or its affiliates and: (i) its executive officers, directors or affiliates; or (ii) L-1, Purchaser or their respective executive officers, directors or affiliates. The Information Statement is being furnished to Digimarc's stockholders pursuant to Section 14(f) of the Exchange Act, and Rule 14f-1 issued under the Exchange Act in connection with L-1's right, after accepting the tendered Shares for payment and pursuant to the Merger Agreement, to designate persons to the board of directors of Digimarc (the "Digimarc Board ") other than at a meeting of the stockholders of Digimarc. The Information Statement is incorporated herein by reference.

(a) Arrangements with Current Executive Officers and Directors of Digimarc.

In considering the recommendation of Digimarc's board of directors as set forth in Item 4 below, Stockholders should be aware that certain executive officers and directors of Digimarc have interests in the Offer and the Merger, which are described below, which are different from or in addition to the interests of the stockholders generally. Digimarc's board of directors is aware of these potential conflicts and considered them along with the other factors described in this Item 3 and Item 4 below in approving the Merger Agreement and making such recommendation.

Cash Consideration Payable Pursuant to the Offer.

If each of Digimarc's directors and executive officers were to tender the Shares each owns for purchase pursuant to the Offer, as each has either agreed to pursuant to support agreements described below or expressed intention to, each would receive the same cash consideration on the same terms and conditions as the other Stockholders. Any outstanding Shares not tendered in the Offer will be cancelled and converted into the right to receive the Offer Price, without interest, in the Merger.

As of June 27, 2008, Digimarc's directors and executive officers owned, directly and indirectly, in the aggregate 987,048 Shares (excluding Shares issuable upon the exercise of stock options). If the directors and executive officers were to tender all of their Shares for purchase pursuant to the Offer, and those Shares were purchased by the Purchaser at the Offer Price, the directors and executive officers would receive an aggregate of \$11,745,871 in cash, without interest and less any required withholding taxes.

Treatment of Digimarc Stock Options and Restricted Stock.

Each of the directors and executive officers of Digimarc owns Shares and/or options to purchase Shares. They will be entitled to the same rights as other Stockholders and option holders with respect to such ownership interests, including the right to tender their Shares in the Offer and acceleration of vesting, as applicable, as described below.

Stock Options. All outstanding options to purchase Shares will become fully vested and exercisable on or prior to the Spin-Off Record Date. Holders of Digimarc stock options will be given the opportunity to exercise their stock options, whether or not vested, on or prior to the Spin-Off Record Date. Following exercise their stock options, the holders of Shares issued upon exercise will be entitled to receive the Offer Price or the per share Merger consideration, which is equal to the Offer Price, in connection with the Merger, as the case may be, and for stock options exercised prior to the Spin-Off Record Date, the distribution of the equity interests in connection with the Spin-Off. All Digimarc stock options that are not exercised or cancelled prior to the effective time of the Merger will be cancelled and null and void as of the effective time of the Merger.

In connection with the termination of Digimarc's 1995 Stock Incentive Plan, Restated 1999 Stock Plan, 2000 Non-Officer Employee Stock Incentive Plan and 1999 Non-Employee Director Option Program, following the Spin-Off, no holder of Digimarc stock options, or any participant or beneficiary of the plans, will have any right to acquire or receive any equity securities of the surviving corporation or any consideration other than those discussed above.

Restricted Stock. All outstanding Shares of Digimarc restricted stock will become fully vested on or prior to the Spin-Off Record Date. The holders of restricted stock will be Stockholders for purposes of the Spin-Off and can participate in the Offer. In the Merger, each Share of formerly restricted stock that was not tendered in the Offer and is outstanding immediately prior to the effective time of the Merger (other than Shares of Stockholders who exercise appraisal rights under Delaware law) will be cancelled and converted into the right to receive the per share Merger consideration, which is equal to the Offer Price, without interest thereon and less any required withholding taxes.

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As of the date of this Schedule 14D-9, the directors and executive officers of Digimarc hold options to purchase 3,614,000 Shares, 3,008,782 of which are vested and exercisable as of the date of this Schedule 14D-9, at a weighted average exercise price of \$13.66 per share, and 493,000 Shares of Digimarc restricted stock.

Potential Severance and Retention Payments.

Davis Employment Agreement. Digimarc has entered into an employment agreement with Bruce Davis, its President and Chief Executive Officer, which provides that if Mr. Davis' employment is terminated in certain circumstances, as described below, Mr. Davis' stock options will immediately and fully vest and Digimarc will be obligated to continue to pay Mr. Davis, for two years from the date of termination, base compensation at the level in effect on the date of termination, annual bonus compensation at the level earned in the most recent fiscal year and, for Mr. Davis and his dependents, continued health, disability and other fringe benefits as are generally provided to other executives of Digimarc. In addition, in consideration for the provisions in the employment agreement providing for the post-termination payments described above, Mr. Davis has agreed to certain non-competition and non-solicitation obligations in Digimarc's favor. Mr. Davis is eligible for these severance benefits if his employment is terminated by Digimarc without "cause" or by Mr. Davis due to an "adverse change" in the conditions of his employment.

Under Mr. Davis' employment agreement, "cause" is defined as an action or inaction adverse to Digimarc, including any dishonesty, grossly negligent misconduct, willful misconduct, disloyalty, an act of bad faith, neglect of duty or material breach of the employment agreement. "Adverse change" includes, if done without Mr. Davis' prior written consent, a reduction in title or responsibilities or mandatory relocation more than 35 miles from his current place of employment.

Under Mr. Davis' employment agreement, in the event that any payments, benefits, distributions or any combination thereof would constitute "excess parachute payments" under Section 280G of the Internal Revenue Code of 1986 (as amended, the "Code"), Mr. Davis is entitled to receive an additional "gross-up payment." Such "gross-up payment" would be in an amount such that after payment by Mr. Davis of all excise taxes imposed under Section 280G of the Code, including any interest, penalties and the excise tax and/or any other tax imposed upon the gross-up payment itself, Mr. Davis retains an amount equal to the original amount of the parachute payment prior to the assessment of excise taxes or application of the "gross-up payment."

DMRC Corporation will assume all liabilities and obligations of Digimarc under Mr. Davis' employment agreement following the Spin-Off.

Change of Control Retention Agreement. Digimarc has entered into a change of control retention agreement with each of Michael McConnell, its Chief Financial Officer and Treasurer; Robert Eckel, its President, Government Programs; Robert Chamness, its Chief Legal Officer and Secretary; and Reed Stager, its Executive Vice President. The change of control retention agreements provide for certain severance benefits in the event of termination of the executive without "cause" by Digimarc, or termination by the executive for "good reason," each as described below, within 12 months following a change of control of Digimarc or the sale of certain divisions of Digimarc during the term of the change of control retention agreement. The severance benefits payable upon such a termination include 12 months' salary, a prorated bonus payment and up to 18 months of premiums necessary to continue the executive's health insurance coverage under Digimarc's health insurance plan. The severance benefits are conditioned upon the executive signing a release of claims. An executive's termination is not subject to the change of control retention agreement, however, if (1) the termination of employment occurs in connection with the sale of the digital watermarking business or the secure ID business of Digimarc, (2) the executive is offered employment by the successor company on terms

that would not constitute "good reason" and (3) the successor company assumes Digimarc's obligations under the change of control retention agreement.

Under the change of control retention agreements, "cause" is defined as willful misconduct that is significantly injurious to Digimarc; fraud, dishonesty, embezzlement, misrepresentation or theft from Digimarc; a felony or crime involving moral turpitude; breach of any agreement with Digimarc; unauthorized disclosure of Digimarc's proprietary or confidential information or breach of any confidentiality or proprietary information agreement with Digimarc; violation of Digimarc's Code of Ethics (if applicable) or Code of Business Conduct or any other employment rule or policy; continued failure or refusal to follow instructions after five days has passed following delivery of a written notice identifying the failure or refusal; a court order or a consent decree barring the executive from serving as an officer or director of a public company; or continued failure to meet and sustain an acceptable level of performance of duties and obligations to Digimarc for 30 days following notice of failure to perform.

"Good reason" is defined as a substantial reduction in duties or responsibilities (with certain exceptions, such as change of title); a material reduction in base salary, benefits or total cash compensation, other than as part of an overall reduction for all employees at the same level; a mandatory transfer to another geographic location more than 35 miles from the prior location of employment, other than normal business travel obligations; the failure of a successor to Digimarc to assume the obligations under the change of control retention agreement; or Digimarc's failure to comply with its obligations under the change of control retention agreement.

Under the change of control retention agreements, in the event that any payments or benefits would constitute "excess parachute payments" under Section 280G of the Code, the payment or benefits will be reduced to avoid having any portion treated as an excess parachute payment, provided that the after-tax value to the executive of the remaining payments or benefits is, in the opinion of Digimarc's tax advisor, not less than if the payments or benefits had been fully made.

DMRC Corporation will assume all liabilities and obligations of Digimarc under the change of control retention agreements with the individuals listed above following the Spin-Off.

DMRC Corporation Non-voting Preferred Stock.

After the Spin-Off and completion of the DMRC Merger, DMRC Corporation will issue to the executive officers of DMRC Corporation shares of DMRC Corporation non-voting preferred stock in the aggregate amount of \$50,000.

Employment Following the Merger.

Following the Merger, some of the executive officers of Digimarc may be retained by L-1 or its subsidiaries or DMRC Corporation as officers, employees or consultants. None of the executive officers of Digimarc have entered into employment agreements with L-1 or its subsidiaries or DMRC Corporation, but may enter into agreements in the future that provide for compensation, severance and other benefits commensurate with their current compensation and benefits and future responsibilities.

Following the Merger, Bruce Davis, Michael McConnell and Robert Chamness are expected to hold similar positions with DMRC Corporation to those they currently hold with Digimarc.

Indemnification and Insurance.

L-1 has agreed to cause the surviving corporation of the Merger to assume the obligations associated with all rights of the individuals who on or prior to the effective time of the Merger were directors or officers of Digimarc or any of its subsidiaries to indemnification and exculpation from liabilities for acts or omissions occurring at or prior to the effective time of the Merger. Such

indemnification will be provided to the same extent such persons are entitled to be indemnified pursuant to the respective certificate of incorporation or bylaws (or comparable organizational document), as applicable, of Digimarc or any of its subsidiaries as of June 29, 2008, and any indemnification agreements or arrangements, which will survive the Merger and will continue in full force and effect in accordance with their terms. The certificate of incorporation and bylaws of the surviving corporation will contain provisions with respect to indemnification that are at least as favorable to the indemnified parties as those in Digimarc's certificate of incorporation and bylaws on June 29, 2008, and such provisions will not be amended, repealed or otherwise modified in a manner that would adversely affect the rights thereunder of the indemnified parties.

Under the terms of the Merger Agreement, the surviving corporation will also, for a period of six years after the completion of the Merger, maintain the directors' and officers' liability insurance policies currently maintained by Digimarc to cover acts or omissions occurring at or prior to the effective time of the Merger for those individuals who are covered by Digimarc's current directors' and officers' liability insurance policies, on terms with respect to such coverage and amount no less favorable to such individuals as Digimarc's policies in effect on June 29, 2008; provided, however, that if the aggregate annual premiums for such insurance exceeds 150% of the current aggregate annual premium, then L-1 will provide or cause to be provided policies for the applicable individuals with the best coverage as will then be available at an annual premium of 150% of the current aggregate annual premium. Alternatively, with the consent of L-1, which consent will not be unreasonably withheld, Digimarc may purchase "tail" insurance coverage covering a period of six years after the effective time of the Merger, at a cost no greater than that set forth in the preceding sentence, that provides coverage identical in all material respects to the coverage described above.

(b) Arrangements with L-1 and the Purchaser.

Merger Agreement.

The summary of the Merger Agreement contained in Section 11 of the Offer to Purchase and the description of the conditions of the Offer contained in Sections 1 and 16 of the Offer to Purchase are incorporated herein by reference. This summary is qualified in its entirety by reference to the Merger Agreement, which is filed as Exhibit (e)(1) to this Schedule 14D-9 and is incorporated herein by reference.

Support Agreements.

In connection with the execution of the Merger Agreement, Bruce Davis, Michael McConnell, Robert Eckel, Robert Chamness, Reed Stager and Philip Monego, Sr. have entered into support agreements with L-1 pursuant to which, among other things, each of these individuals has agreed to tender all of his Shares in connection with the Offer. As of June 27, 2008, these individuals as a group beneficially owned approximately 3,313,671 shares or approximately 13.27% of the total outstanding Shares. This summary is qualified in its entirety by reference to the form of support agreement, which is filed as Exhibit (e)(2) and is incorporated herein by reference.

The Spin-Off Agreements.

In connection with the Spin-Off, L-1 and Digimarc have negotiated a separation agreement, a license agreement and a transition services agreement. The summary of each of these agreements contained in Section 12 of the Offer to Purchase is incorporated herein by reference. Those summaries do not purport to provide a complete and accurate description of these agreements.

Item 4. The Solicitation or Recommendation.

(a) Recommendation of Digimarc's Board of Directors. After careful consideration by Digimarc's board of directors, including a thorough review of the Offer with Digimarc's outside legal and financial advisors and Digimarc's senior management and of other alternatives available to Digimarc, Digimarc's board of directors, by unanimous resolutions: (1) determined that the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger, are advisable, fair to and in the best interests of Digimarc and its Stockholders; (2) approved and declared advisable the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger; and (3) recommended that the Stockholders accept the Offer, tender their Shares to Purchaser pursuant to the Offer and, if required by applicable law, adopt the Merger Agreement and authorize the Merger. **Accordingly, Digimarc's board of directors recommends that Stockholders accept the Offer and tender their Shares pursuant to the Offer.**

(b) Background and Reasons for the Recommendation of Digimarc's Board of Directors.

Background of the Offer.

As part of its ongoing evaluation of Digimarc's business and strategic direction, Digimarc's board of directors has evaluated from time to time Digimarc's strategic alternatives. In addition, Digimarc has, from time to time, received unsolicited inquiries related to an acquisition of all or part of the company. In the second half of 2006, Digimarc's board of directors determined that Digimarc would benefit from the resources and analysis provided by financial advisors familiar with the company and the businesses in which it is engaged. In November 2006, Digimarc engaged USBX Advisory Services, LLC ("USBX Advisory Services") and RA Capital Advisors LLC ("RA Capital") as Digimarc's financial advisors to assess Digimarc's secure ID business and digital watermarking business, respectively, and to assist in the evaluation of strategic alternatives, including identifying potential complementary businesses for Digimarc to acquire and assisting management and the board of directors in reviewing and analyzing potential inquiries from parties interested in acquiring all or a portion of the company.

In the spring and summer of 2007, USBX Advisory Services facilitated discussions and financial and legal due diligence with four parties interested in potential strategic transactions with Digimarc, none of which resulted in an offer to acquire Digimarc or any of its assets or businesses. In the fall of 2007, certain assets of USBX Advisory Services, including the Digimarc engagement and the primary USBX Advisory Services bankers working on the Digimarc engagement, were acquired by Imperial Capital.

On October 11, 2007, Robert Basil, Vice President of Strategic Planning and Business Operations of L-1, contacted a representative of USBX Advisory Services to facilitate a conversation between L-1 and Digimarc about a possible strategic transaction.

On October 18, 2007, a representative of USBX Advisory Services contacted James DePalma, Chief Financial Officer of L-1, to further discuss L-1's preliminary interest in discussing the possible acquisition of Digimarc's secure ID business.

During the month of November 2007, Mr. Basil and Mr. DePalma continued to have several informal and general discussions with Jay Beaghan, a representative from USBX Advisory Services, regarding L-1's preliminary interest in the acquisition of Digimarc's secure ID business.

In late November 2007, Mr. LaPenta contacted USBX Advisory Services to express interest in a potential transaction between L-1 and Digimarc involving the acquisition of Digimarc's secure ID business.

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On December 3, 2007, Mr. DePalma contacted Mr. Beaghan to outline and discuss L-1's proposed structure of a potential transaction involving the acquisition of Digimarc's secure ID business by L-1 and timing for a possible meeting between L-1 and Digimarc.

On December 6, 2007, at a meeting of Digimarc's board of directors, a representative of USBX Advisory Services reported to the board of directors on his conversations with Mr. DePalma regarding a potential acquisition of Digimarc's secure ID business.

On January 22, 2008, Bruce Davis, President and Chief Executive Officer of Digimarc, James T. Richardson, Digimarc's lead director, and Mr. Beaghan, now a representative of Imperial Capital after the acquisition of certain assets of USBX Advisory Services, met with Mr. LaPenta at the Portland, Oregon, airport to discuss L-1's interest in a potential transaction involving the acquisition of Digimarc's secure ID business. The parties discussed the broad parameters of a potential transaction.

On January 25, 2008, Digimarc's board of directors held a meeting, during which Messrs. Davis and Richardson reported on their meeting with Mr. LaPenta. The board of directors directed Digimarc's management, and its financial and legal advisors, to explore the threshold structuring, legal and regulatory issues involved in a potential transaction with L-1 to determine the preliminary viability of such a transaction.

On January 29, 2008, Digimarc and L-1 entered into a mutual confidentiality agreement to facilitate the sharing of certain non-public information with respect to their discussions of a potential transaction pursuant to which L-1 would acquire Digimarc's secure ID business and to permit L-1 to begin a due diligence review of Digimarc.

Between January 29, 2008 and February 27, 2008, various representatives of L-1 and Digimarc, including representatives of L-1's financial, accounting and legal advisors, and Digimarc's legal advisors, held a series of telephone conferences to discuss legal, accounting and tax matters relating to a potential transaction between L-1 and Digimarc pursuant to which L-1 would acquire Digimarc's secure ID business, and to exchange preliminary due diligence information with respect to each company.

On February 28, 2008, at a meeting of Digimarc's board of directors, Digimarc's management and representatives of Perkins Coie LLP, Digimarc's legal counsel ("Perkins Coie") reported the results of their initial discussions with L-1 and its representatives. The board of directors discussed a potential transaction between L-1 and Digimarc pursuant to which L-1 would acquire Digimarc's secure ID business, the risks related to such a transaction and alternatives to such a transaction available to Digimarc, including the sale of the entire company, remaining as a stand-alone company or acquisitions of other companies or businesses. The board of directors authorized management and Digimarc's advisors to continue to explore a potential transaction with L-1 pursuant to which L-1 would purchase Digimarc's secure ID business, as well as to pursue other opportunities for a strategic transaction.

On February 29, 2008, Mr. Davis spoke with Mr. LaPenta by telephone to indicate that Digimarc's board of directors supported continued discussions between the parties regarding a potential transaction involving the acquisition by L-1 of Digimarc's secure ID business and to arrange for an in-person meeting to further discuss the terms of such a transaction.

On March 4, 2008, various representatives of L-1 and Digimarc, including representatives of their respective legal advisors, held a telephone conference to discuss the proposed tax structure of the potential transaction between L-1 and Digimarc involving the acquisition by L-1 of Digimarc's secure ID business.

On March 11, 2008, Mr. Davis and Mr. Beaghan met with Mr. LaPenta in New York City to discuss the terms of a potential transaction between Digimarc and L-1 involving the acquisition by L-1 of Digimarc's secure ID business. After several hours of meetings and discussions of the potential synergies of the companies' businesses and the terms of a potential transaction, Mr. Davis and

Mr. LaPenta reached a preliminary understanding on the general economic terms of a proposed acquisition by L-1 of Digimarc's secure ID business and the related spin-off of Digimarc's digital watermarking business.

On March 12, 2008, Mr. Davis and Mr. LaPenta held a telephone conference, during which they discussed additional details of L-1's proposal to be presented to Digimarc's board of directors, including the aggregate purchase price, the allocation of the proposed consideration between cash and L-1 common stock, the concept of a collar applicable to the L-1 common stock portion of the consideration, the termination fees and L-1's investment in DMRC Corporation.

Also on March 12, 2008, representatives of Perkins Coie invited representatives of L-1 and Weil Gotshal & Manges LLP, L-1's legal counsel ("Weil Gotshal") to conduct more detailed due diligence on Digimarc and its businesses through access to an online data room containing customary due diligence materials.

On March 13, 2008, Digimarc's board of directors convened a meeting to discuss L-1's proposal relating to a potential transaction involving the acquisition by L-1 of Digimarc's secure ID business. Representatives of Imperial Capital, RA Capital and Perkins Coie also attended the meeting. The board of directors reviewed the structure and terms of the proposed transaction and received advice from its financial advisors regarding valuation implications of the proposal and strategic alternatives, including the sale of the entire company, remaining as a stand-alone company or acquisitions of other companies. A representative of Perkins Coie advised the board of directors on its fiduciary obligations with respect to the proposed transaction. Imperial Capital, the board of directors and management reviewed a list of potential acquirers and the board of directors then authorized Imperial Capital to contact a selected group of potential acquirers to ascertain whether they were interested in pursuing a transaction. The group of potential acquirers was determined based on previous communications with those parties, the level of interest expressed and the likely value of a transaction with them. Following the meeting, Mr. Davis called Mr. LaPenta to confirm the board of directors' support of continued due diligence and the negotiation of the potential transaction involving the acquisition by L-1 of Digimarc's secure ID business.

From March 14, 2008 to March 18, 2008, representatives of Imperial Capital conducted a targeted market check and had conversations with approximately 10 qualified potential acquirers, other than L-1, which were both private equity firms and potential strategic buyers, to solicit interest in a potential transaction with Digimarc. Each party was informed of certain financial and timing considerations of any expression of interest. None of the parties submitted an offer to Digimarc on the bases described.

On March 15, 2008, representatives of Weil Gotshal delivered an initial draft of the merger agreement to Digimarc and representatives of Perkins Coie. Weil Gotshal and L-1 also began to provide customary due diligence materials about L-1 and its subsidiaries to Digimarc and Perkins Coie.

From March 15, 2008 through March 23, 2008, Digimarc's management and Perkins Coie, on the one hand, and L-1's management and Weil Gotshal, on the other hand, negotiated the terms of the merger agreement and related schedules and agreements. The parties also continued their respective due diligence reviews during this period.

On March 19, 2008, Digimarc's board of directors met to consider the proposed transaction involving L-1's acquisition of Digimarc's secure ID business. Also present at the meeting were representatives of Imperial Capital, RA Capital and Perkins Coie. Representatives of Digimarc's management and Perkins Coie reviewed the proposed terms of the merger agreement, including the remaining issues to be negotiated. Among the issues subject to further negotiation were the collar applicable to the L-1 common stock portion of the consideration, the termination provisions and provisions related to L-1's financing of the transaction. The representatives of Imperial Capital and RA Capital presented an exhaustive review regarding the potential impact on stockholder value of a

range of alternatives, including the potential transaction with L-1, a sale of the entire company, remaining as a stand-alone company or acquisitions of other companies. Representatives of Perkins Coie advised the board of directors on its fiduciary duties regarding the pursuit of alternative proposals and regulatory considerations regarding the proposed transaction. The board of directors directed management and Perkins Coie to attempt to negotiate the definitive merger agreement, including the related schedules and agreements, on terms that would be satisfactory to the board of directors.

From March 19, 2008 through much of the day on March 22, 2008, Digimarc's management and Perkins Coie, on the one hand, and L-1's management and Weil Gotshal, on the other hand, negotiated the terms of the merger agreement and related schedules and agreements.

On March 22, 2008, Digimarc's board of directors met to review all the terms of the proposed transaction involving L-1's acquisition of Digimarc's secure ID business and a substantially final draft of the merger agreement, and to receive a report from Perkins Coie of the legal aspects of the transaction. A representative of Perkins Coie again reviewed for the board of directors its fiduciary duties applicable to the potential transaction. Representatives of Imperial Capital and RA Capital then presented their financial analyses with respect to the proposed transaction with L-1. Following this presentation, Imperial Capital reviewed with the board of directors Imperial Capital's financial analyses and delivered to the board of directors an oral opinion, which opinion was confirmed by delivery of a written opinion, dated March 22, 2008, to the effect that, as of that date and based on and subject to various assumptions, matters considered and limitations described in its opinion, the consideration in the Merger was fair, from a financial point of view, to the holders of Digimarc common stock. Digimarc's board of directors then unanimously approved the merger, the merger agreement and the transactions contemplated thereby and the Spin-Off and recommended that the Stockholders approve the merger and the merger agreement.

On March 23, 2008, following the resolution of the final issues in the merger agreement and related schedules and agreements, Digimarc, L-1 and Purchaser executed the merger agreement (such merger agreement, the "Original Merger Agreement").

On March 24, 2008, prior to the opening of U.S. financial markets, Digimarc and L-1 each issued a press release announcing that L-1 had entered into a definitive agreement to acquire Digimarc's secure ID business. The press releases also announced the related Spin-Off of Digimarc's digital watermarking business and cash on hand.

Following the announcement of the Original Merger Agreement and through the second week of June 2008, Digimarc, L-1 and their respective representatives negotiated the terms of a separation agreement, transition services agreement and license agreement, each related to the Spin-Off, and prepared a prospectus/proxy statement related to the Merger and a Form 10 for the registration of the shares of common stock of DMRC Corporation to be issued in connection with the Spin-Off.

On June 12, 2008, the Federal Trade Commission (the "FTC") granted early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the "HSR Act"), relating to the Merger.

Subsequently, on June 12, 2008, Digimarc received an unsolicited non-binding indication of interest from Safran S.A. ("Safran") in which Safran proposed to acquire the outstanding common stock of Digimarc, following the spin-off of Digimarc's digital watermarking business and cash on hand, for \$300 million in cash, subject to completion of due diligence and negotiation of customary definitive documentation similar to the Original Merger Agreement with L-1 and written confirmation from the Committee on Foreign Investment in the United States of successful completion of the review process under the Exon-Florio Amendment to the Defense Production Act of 1950, as amended. In addition, Safran would invest \$5 million in the digital watermarking business. Pursuant to the Original Merger

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Agreement, Robert Chamness, Chief Legal Officer and Secretary of Digimarc, notified Mr. Molina of Safran's proposal and provided Mr. Molina with a copy of the proposal.

Between June 14, 2008 and June 16, 2008, Mr. Davis and Mr. LaPenta engaged in multiple conversations regarding potential modifications to the form and amount of consideration in the Original Merger Agreement and the structure of the transaction between Digimarc and L-1.

On June 15, 2008, representatives of Digimarc's regulatory counsel, King & Spalding LLP ("King & Spalding") spoke with representatives of Safran's legal counsel Kaye Scholer LLP ("Kaye Scholer") to discuss issues related to the likelihood of receiving approval from the Committee on Foreign Investment in the United States for the transaction contemplated by the Safran proposal.

On June 16, 2008, Digimarc's board of directors met to consider the Safran proposal. After consulting with its legal and financial advisors, Digimarc's board of directors determined that the Safran proposal could reasonably be expected to lead to a "superior proposal" as defined in the Original Merger Agreement. Accordingly, the board of directors authorized Digimarc to furnish information to and enter into discussions with Safran regarding the proposal.

On June 17, 2008, during a telephonic conference, representatives of L-1, Weil Gotshal, Digimarc, Perkins Coie and Bank of America discussed L-1's intent to propose an all cash transaction effected pursuant to a tender offer. The participants also discussed the current status of L-1's debt financing.

Later on June 17, 2008, Digimarc received a written proposal in which L-1 proposed an all cash tender offer for all of the outstanding Shares followed by a second-step merger, following the Spin-Off of Digimarc's digital watermarking business and cash on hand, for an aggregate purchase price of \$325 million. In addition, L-1 would invest \$5 million in the digital watermarking business.

In a subsequent telephonic conference on June 17, 2008, representatives of L-1, Weil Gotshal, Digimarc and Perkins Coie discussed L-1's revised proposal. Because of the preliminary nature of L-1's revised proposal, Mr. Davis indicated during the meeting that Digimarc did not intend at that time to terminate its discussions with Safran. At the end of this discussion, L-1 withdrew its revised proposal.

Later on June 17, 2008, a representative of Perkins Coie formally notified Mr. Molina of Digimarc's board of directors' determination that the Safran acquisition proposal could reasonably be expected to lead to a "superior proposal," as defined in the Original Merger Agreement.

On June 20, 2008, Safran's Executive Vice President, Strategy, Olivier Andries, Safran's legal and financial advisors, Mr. Davis, Mr. Chamness, Mr. Beaghan and a representative of Perkins Coie conducted a telephonic meeting during which the parties discussed logistics for facilitating Safran's due diligence review of Digimarc.

On June 22, 2008, Digimarc published a press release announcing receipt of the Safran proposal. During the week of June 22, 2008, representatives of Imperial Capital conducted separate telephonic meetings with Evercore Partners, Safran's financial advisors, and L-1 to discuss their respective acquisition proposals.

On June 23, 2008, DMRC Corporation filed a registration statement on Form 10 to register the shares of its common stock to be distributed in the Spin-Off. On the same day, Digimarc published a press release announcing the filing of the registration statement on Form 10 by DMRC Corporation.

On June 24, 2008, Safran entered into a confidentiality agreement with Digimarc in compliance with the terms of the Digimarc Merger Agreement to permit Safran to begin a due diligence review of Digimarc, and Digimarc delivered a copy of the confidentiality agreement to L-1. Following execution of the confidentiality agreement, representatives of Perkins Coie invited representatives of Safran and Kaye Scholer to conduct more detailed due diligence on Digimarc and its businesses through access to an online data room containing customary due diligence materials.

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On June 25, 2008, representatives of Perkins Coie and Weil Gotshal discussed the terms and structure of a potential new proposal from L-1 by telephone conference.

On June 26, 2008, Mr. Davis and Mr. LaPenta discussed the proposed terms of a new revised offer to come from L-1. Separately, Mr. Molina and Mr. Chamness discussed the schedule and process contemplated by L-1 for presenting its potential new proposal to Digimarc.

Later on June 26, 2008, as a follow up to the earlier schedule and process call between Mr. Molina and Mr. Chamness, L-1 provided Digimarc and Perkins Coie with proposed amendments to the Original Merger Agreement providing for an offer to acquire, in an all cash tender offer, all of the outstanding Shares followed by a second-step merger, following the Spin-Off of Digimarc's digital watermarking business and cash on hand.

From June 27, 2008 through June 29, 2008, Digimarc, L-1 and their respective counsel and advisors negotiated the terms and conditions of the draft amendment to the Original Merger Agreement.

On June 28, 2008, L-1 provided a new written offer to Digimarc providing for an all cash tender offer for all of the outstanding Shares for an aggregate offer price of \$310 million, followed by a second-step merger, following the Spin-Off of Digimarc's digital watermarking business and cash on hand.

On June 29, 2008, Digimarc's board of directors met to consider the new L-1 proposal and a substantially final draft of the Merger Agreement. A representative of Perkins Coie discussed material legal aspects of the transaction and reviewed for the board of directors its fiduciary duties applicable to the potential transaction. Representatives of Imperial Capital reviewed with the board of directors Imperial Capital's financial analyses and delivered to the board of directors an oral opinion, which opinion was confirmed by delivery of a written opinion, dated June 29, 2008, to the effect that, as of that date and based on and subject to various assumptions, matters considered and limitations described in its opinion, the consideration to be received by the Stockholders in the Offer and in the Merger was fair, from a financial point of view, to the holders of Digimarc common stock. The full text of the written opinion of Imperial Capital, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with such opinion, is attached to this Schedule 14D-9 as *Annex B*. Digimarc's board of directors then unanimously (1) approved and declared advisable the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger, (2) determined that the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger, are advisable, fair to and in the best interests of Digimarc and its Stockholders and (3) recommended that the Stockholders accept the Offer and tender their Shares pursuant to the Offer and, if necessary, adopt the Merger Agreement.

On June 29, 2008, following the resolution of the final issues in the Merger Agreement and related schedules and agreements, Digimarc, L-1 and Purchaser executed the Merger Agreement, and Digimarc terminated its discussions with Safran.

On June 30, 2008, prior to the opening of U.S. financial markets, Digimarc and L-1 each issued a press release announcing that L-1 and Digimarc had entered into the Merger Agreement providing for an all-cash transaction, by means of a tender offer followed by a second-step merger, with an aggregate offer price of \$310 million.

Subsequently, on June 30, 2008, Perkins Coie on behalf of Digimarc provided written notice to Safran of Digimarc's decision to terminate discussions with Safran regarding a transaction, and requested the destruction or return of confidential information pursuant to the terms of Safran's non-disclosure agreement with Digimarc.

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Reasons for the Recommendation of Digimarc's Board of Directors.

Following a review and discussion of all relevant information regarding the Merger and the Offer, at a meeting on June 29, 2008, Digimarc's board of directors determined that the Merger is in the best interests of Digimarc and the Stockholders, and unanimously (1) determined that the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger, are advisable, fair to and in the best interests of Digimarc and its Stockholders; (2) approved and declared advisable the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger; and (3) recommended that the Stockholders accept the Offer, tender their Shares to Purchaser pursuant to the Offer and, if required by applicable law, adopt the Merger Agreement. Digimarc's board of directors considered numerous factors, including the following material factors and benefits of the Offer, each of which Digimarc's board of directors believed supported its decision:

The Offer and the Merger will create significant stockholder value with respect to Digimarc's secure ID business. In light of the continuing trend of increasing competition, and the resulting uncertainty this competition represents with respect to smaller secure ID companies, Digimarc's board of directors believes that the Merger presents an opportunity to realize the value of the secure ID business, which view is supported by the significant premium represented by the secure ID business implicit in the Offer Price. Based on the closing price of L-1 common stock on March 14, 2008, the date prior to the announcement of the Merger that Imperial Capital used to conduct its analysis, and before attributing any value to the spin-off of the digital watermarking business to the Stockholders, the Offer Price implies:

a 43.8% premium, based on the closing price of Digimarc common stock on March 14, 2008,

a 29.8% premium, based on the weighted-average closing price of Digimarc common stock for the three months ended March 14, 2008,

a 24.5% premium, based on the average closing price of Digimarc common stock for the six months ended March 14, 2008,

a 15.0% premium, based on the average closing price of Digimarc common stock for the year ended March 14, 2008, and

a 34.0% premium, based on the average closing price of Digimarc common stock for the three years ended March 14, 2008.

Separating the digital watermarking business from the secure ID business enhances stockholder value. Digimarc's board of directors believes that separating the digital watermarking business and the secure ID business will better enable each business to reach its full potential. Management believes the secure ID business would be disadvantaged over time in competing in an increasingly global market without access to additional capital and more significant resources. The trend of increasing competition in the secure ID market, where company size and reach are key differentiating factors, is expected to continue. On the other hand, management and Digimarc's board of directors believe that growth opportunities exist for the digital watermarking business. Management and Digimarc's board of directors also believe that focusing on the digital watermarking business will encourage more creativity and energy to grow this business profitably. Digimarc's board of directors believes that the separation of the digital watermarking business from Digimarc and the Merger of Digimarc with Purchaser offer the potential to unlock the full value of Digimarc's businesses in both the short and long term, which Digimarc's board of directors does not believe has been fully recognized by the investment community.

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In addition to the foregoing business considerations, Digimarc's board of directors considered the following material factors in reaching its decision to approve the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger:

the Offer provides for a cash tender offer for all of the Shares held by the Stockholders to be followed by the Merger in which all the outstanding Shares (other than Shares held by the Purchaser, L-1 or by Stockholders, if any, who properly exercise their appraisal rights under Delaware law) would be converted into the right to receive cash equal to the Offer Price, thereby enabling the Stockholders to obtain the benefits of the transaction at the earliest possible time;

the financial presentation of Imperial Capital and its opinion dated June 29, 2008 to the Digimarc Board as to the fairness, from a financial point of view and as of that date, of the consideration to be received by the Stockholders pursuant to the Offer and the Merger, which is described more fully below in Item 4(d) Opinion of Digimarc's Financial Advisor, beginning on page 15 and in the written opinion of Imperial Capital attached as *Annex B*.

the value of the shares of DMRC Corporation to be received by the Stockholders in the Spin-Off;

the advice of RA Capital, a financial advisor to the Digimarc Board that has extensive industry experience with businesses similar to the digital watermarking business, with respect to the value of Digimarc Corporation following the Spin-Off;

the current and historical trading prices of the Shares compared to other competitors in the secure ID market;

the historical financial and operational performance and trading prices of the Shares;

various alternatives to the Offer, the Merger and the Spin-Off, including continuing to operate the secure ID business and the digital watermarking business as a combined, independent enterprise, and the risks associated with those alternatives;

the results of the solicitations of interest from other entities to engage in an acquisition transaction with Digimarc in connection with the evaluation of the best available alternative for the Stockholders;

the trend of increasing competition in the secure ID market;

the historical performance and reputation of the L-1 management team;

the ability of Digimarc and L-1 to complete the Offer and the Merger, including their ability to obtain necessary regulatory approvals and the obligations to try to obtain those approvals, and measures taken by Digimarc and L-1 to provide reasonable assurance to each other that the Offer and the Merger will occur, including the provisions of the Merger Agreement that require Digimarc or L-1 to compensate the other in some circumstances if the Offer does not occur;

Digimarc's ability to entertain subsequent acquisition proposals if various conditions are satisfied, including that the acquisition proposal was not solicited by Digimarc and the Digimarc Board determines that the proposal could reasonably be expected to lead to a superior proposal;

Digimarc's right to terminate the Merger Agreement before the Purchaser's acceptance of the Shares tendered in the Offer to enter into an acquisition transaction with a third party that the Digimarc Board determines to be a superior proposal, if Digimarc pays a termination fee of \$10,850,000 million to L-1;

the fact that the closing of the Offer is not subject to any financing condition; and

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other terms of the Merger Agreement, including the representations, warranties and covenants, and the conditions to each party's obligation to complete the Offer and the Merger.

The board of directors also considered a variety of risks and other potentially negative factors concerning the Offer and the Merger. These included the following:

the fact that the nature of the transaction as a cash transaction would prevent the Stockholders from being able to participate in any value creation that Digimarc's secure ID business could generate following the completion of the Offer and the Merger, as well as any future appreciation of the combined company;

the Purchaser's obligation to accept the tendered Shares in the Offer and consummate the Merger is subject to certain conditions, including the minimum condition, which requires that the number of Shares that has been validly tendered (other than Shares tendered by guaranteed delivery where actual delivery has not occurred) and not withdrawn prior to the expiration of the Offer, together with any Shares then owned by L-1, Purchaser or their respective subsidiaries, represent more than 50% of the currently outstanding Shares on a fully-diluted basis, and these conditions may not be satisfied, including as a result of events outside of Digimarc's control;

the fact that gains from the Merger and the Spin-Off generally will be taxable to the Stockholders for U.S. federal income tax purposes;

the restrictions on Digimarc's ability to solicit or engage in discussions with a third party about an alternative transaction and the requirement that Digimarc pay L-1 a termination fee in order for Digimarc's board of directors to accept a superior proposal;

the risk of diverting Digimarc management's focus from other strategic opportunities and operational matters to implementing the Offer, the Spin-Off and the Merger;

the potential conflicts of interest of some Digimarc executive officers and directors; and

the possibility of customer, supplier, management and employee disruption associated with the Offer, the Spin-Off and the Merger.

The discussion above describes material factors considered by Digimarc's board of directors in reaching its decision to (1) determine that the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger, are advisable, fair to and in the best interests of Digimarc and its Stockholders; (2) approve and declare advisable the Merger Agreement and the transactions contemplated thereby, including the Offer and the Merger; and (3) recommend that the Stockholders accept the Offer, tender their Shares to Purchaser pursuant to the Offer and, if required by applicable law, adopt the Merger Agreement. Because of the variety of factors considered, Digimarc's board of directors did not find it practicable to, and did not make specific assessments of, quantify or otherwise assign relative weights to the specific factors considered in reaching its determination. The determination was made after consideration of all of the factors together. In addition, individual members of Digimarc's board of directors may have given different weights to different factors.

For the reasons described above, Digimarc's board of directors recommends that the Stockholders accept the Offer and tender their Shares pursuant to the Offer.

(c) Intent to Tender.

To the knowledge of Digimarc after reasonable inquiry, the executive officers and directors of Digimarc currently intend to tender or cause to be tendered pursuant to the Offer all Shares held of record or beneficially owned by such person and, if necessary, to vote such Shares in favor of adoption of the Merger Agreement and to authorize the Merger. The foregoing does not include any Shares

over which, or with respect to which, any such executive officer or director acts in a fiduciary or representative capacity or is subject to the instructions of a third party with respect to such tender.

(d) Opinion of Digimarc's Financial Advisor.

Digimarc retained Imperial Capital to provide financial advisory services in connection with its evaluation of strategic alternatives and the proposed transaction with L-1. On June 29, 2008, at a meeting of Digimarc's board of directors held to evaluate the proposed transaction, Imperial Capital delivered to Digimarc's board of directors an oral opinion, confirmed by delivery of a written opinion, that as of June 29, 2008, based on and subject to various assumptions, qualifications and limitations set forth in the opinion, the consideration in the transaction was fair, from a financial point of view, to the holders of Digimarc common stock.

The full text of Imperial Capital's written opinion, dated as of June 29, 2008, is attached as *Annex B* to this Schedule 14D-9. The opinion describes the assumptions made, procedures followed, matters considered and limitations on the review undertaken by Imperial Capital. In preparing its opinion, Imperial Capital understood that Digimarc would effect the Spin-Off of its digital watermarking business prior to the consummation of the Offer and the Merger. **Imperial Capital's opinion is directed only to the fairness, from a financial point of view, of the consideration in the transaction to the holders of Digimarc common stock. The opinion does not address the merits of the underlying decision by Digimarc to engage in the transaction with L-1, the Spin-Off of its digital watermarking business or the relative merits of any alternatives discussed by Digimarc's board of directors. The opinion does not constitute an opinion with respect to Digimarc's underlying business decision to effect the transaction with L-1, its underlying business decision to effect the Spin-Off (including equity to be issued by Digimarc Corporation to L-1 or any consideration therefor paid by L-1), any legal, tax or accounting issues concerning the transaction or the Spin-Off, or any terms of the transaction (other than the consideration) or the Spin-Off. In addition, Imperial Capital did not prepare valuation analyses with respect to Digimarc's digital watermarking business and expressed no opinion with respect to its value. The opinion does not constitute a recommendation as to any action Digimarc or any Digimarc Stockholder should take in connection with the transaction or any aspect thereof. Digimarc Stockholders are encouraged to read the opinion carefully in its entirety. The summary of Imperial Capital's opinion described herein is qualified in its entirety by reference to the full text of its opinion.**

In arriving at its opinion, Imperial Capital, among other things:

analyzed certain publicly available information of Digimarc that it believed to be relevant to its analysis, including Digimarc's annual reports on Form 10-K for the fiscal years ended December 31, 2005, December 31, 2006 and December 31, 2007;

analyzed certain publicly available information of L-1 that it believed to be relevant to its analysis, including L-1's Annual Report on Form 10-K for the fiscal year ended December 31, 2007;

reviewed certain internal financial forecasts and budgets prepared and provided by each of Digimarc's and L-1's management, including L-1's pro forma model prepared by its management;

reviewed a valuation analysis of Digimarc's digital watermarking business prepared by RA Capital;

discussed the operations and future prospects of Digimarc and L-1 with members of the management of each of Digimarc and L-1, respectively;

reviewed industry reports and publications;

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reviewed publicly available information with respect to certain other public companies with business lines and financial profiles which Imperial Capital deemed to be relevant to its analysis;

reviewed the implied financial multiples and premiums paid in other merger and acquisition transactions which Imperial Capital deemed to be relevant to its analysis;

reviewed current and historical market prices of Digimarc and L-1 common stock, as well as the trading volume and public float of such common stock;

reviewed the Agreement and Plan of Merger, dated as of March 21, 2008, among L-1, Merger Sub and the Company, including material schedules and exhibits;

reviewed the June 29, 2008 draft amended and restated agreement and plan of merger, including material schedules and exhibits; and

conducted such other financial studies, analyses and investigations and took into account such other matters as Imperial Capital deemed necessary, including its assessment of general economic and monetary conditions.

In giving its opinion, Imperial Capital relied upon the accuracy and completeness of the foregoing financial and other information and did not assume any responsibility for independent verification of such information, and Imperial Capital did not conduct nor, other than the valuation analysis of Digimarc's digital watermarking business prepared by RA Capital, was it furnished with any current independent valuation or appraisal of any assets of Digimarc or L-1 or any appraisal or estimate of liabilities of Digimarc or L-1. With the consent of Digimarc's board of directors, Imperial Capital assumed that all financial forecasts had been reasonably prepared on bases reflecting the best currently available estimates and judgments of the management of each of Digimarc and L-1 as to the future financial performance of the companies. Imperial Capital also relied upon the assurances of the management of each company that they were unaware of any facts that would make the information or financial forecasts provided to it incomplete or misleading. Imperial Capital assumed no responsibility for, and expressed no view as to, such financial forecasts or the assumptions on which they are based. Imperial Capital's opinion was necessarily based on economic, market and other conditions as they existed and could be evaluated on the date of its opinion.

Imperial Capital's opinion does not address the terms, other than the consideration to the extent expressly specified in the opinion, of the Merger Agreement or any related documents or the form of the transaction, or any related transaction, or the Spin-Off of Digimarc's digital watermarking business. Imperial Capital expressed no opinion as to the fairness of the amount or nature of any compensation to be received by any officers, directors or employees of any parties to the transaction or any class of such persons. Imperial Capital assumed, with the consent of Digimarc's board of directors that (1) the final executed form of the Merger Agreement would not differ in any material respect from the draft that Imperial Capital examined on June 29, 2008, (2) the parties to the Merger Agreement would comply with all the material terms of the Merger Agreement and (3) the transaction would be consummated in accordance with the terms of the Merger Agreement without any adverse waiver or amendment of any material term or condition thereof. Imperial Capital also assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the transaction would be obtained without any material adverse effect on L-1, Digimarc or the transaction. Except as described above, Digimarc's board of directors imposed no other instructions or limitations on Imperial Capital with respect to the investigations made or the procedures followed by Imperial Capital in rendering its opinion. The issuance of Imperial Capital's opinion was approved by an authorized committee of Imperial Capital.

In connection with rendering its opinion to Digimarc's board of directors, Imperial Capital performed a variety of financial and comparative analyses that are summarized below. The following summary is not a complete description of all analyses performed and factors considered by Imperial

Capital in connection with its opinion. The preparation of a financial opinion is a complex process involving subjective judgments and is not necessarily susceptible to partial analysis or summary description. With respect to the selected public companies analysis and the selected transactions analysis summarized below, no company or transaction used as a comparison was identical or directly comparable to Digimarc, L-1 or the Merger. These analyses necessarily involve complex considerations and judgments concerning financial and operating characteristics and other factors that could affect the public trading or acquisition values of the companies concerned.

Imperial Capital believes that its analyses and the summary below must be considered as a whole. Selecting portions of its analyses and factors or focusing on information presented in tabular format, without considering the entire analyses and factors or all narrative descriptions, could create a misleading or incomplete view of the processes underlying Imperial Capital's analyses and opinion. Imperial Capital did not draw, in isolation, conclusions from or with regard to any one factor or method of analysis for purposes of its opinion, but rather arrived at its ultimate opinion based on the results of all analyses undertaken by it and assessed as a whole.

The estimates of the future performance of L-1 and Digimarc provided by the respective managements of L-1 and Digimarc in or underlying Imperial Capital's analyses are not necessarily indicative of future results or values, which may be significantly more or less favorable than those estimates. In performing its analyses, Imperial Capital considered industry performance, general business and economic conditions and other matters, many of which are beyond the control of L-1 and Digimarc. Estimates of the financial value of companies do not purport to be appraisals or necessarily reflect the prices at which companies actually may be sold.

The consideration in the transaction was determined through arms-length negotiations between L-1 and Digimarc, and the decision by Digimarc's board of directors to enter into the Merger Agreement was solely that of Digimarc's board of directors. Imperial Capital's opinion and financial analyses were one of many factors considered by Digimarc's board of directors in its evaluation of the transaction and should not be viewed as determinative of the views of Digimarc's board of directors or management with respect to the Merger Agreement or the consideration.

The following is a summary of the material financial analyses performed by Imperial Capital and reviewed with Digimarc's board of directors in connection with Imperial Capital's opinion relating to the transaction. **The financial analyses summarized below include information presented in tabular format. In order to fully understand Imperial Capital's financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Imperial Capital's financial analyses and opinion.**

Publicly Traded Comparables Analysis

Imperial Capital reviewed and compared selected financial information for Digimarc's secure ID business with corresponding financial information and multiples for 18 publicly traded companies from four sectors relevant to the secure ID business: Government IT & Consulting Services, ID solutions, Diversified Technology Leaders and Traditional Physical Security.

For each of the selected public companies, Imperial Capital considered, among other things, (1) market capitalization (computed using closing stock prices as of June 27, 2008), (2) enterprise values, (3) enterprise values as a multiple of latest 12 months ("LTM") ended March 31, 2008 and estimated 2008 revenue and (4) enterprise values as a multiple of LTM ended March 31, 2008 and estimated 2008 earnings before interest, taxes, depreciation and amortization ("EBITDA"). Financial data for the selected public companies were based on the most recent available filings with the SEC and on Reuters' estimates. Financial data for Digimarc and L-1 were based on estimates provided by

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management of Digimarc and L-1, respectively. This analysis indicated the following implied enterprise value ranges of the secure ID business based on selected company trading multiples as applied to the secure ID business' trailing and forward revenue and EBITDA results:

Comparison Type	Range of Multiples		Enterprise Value (in millions)
LTM ID Unit Revenue	\$96.6 ×	1.1x to 1.5x	= \$106.3 to \$145.0
CY08 ID Unit Revenue	\$102.4 ×	1.0x to 1.4x	= \$102.4 to \$143.4
Implied secure ID business Valuation Range			\$102.4 to \$145.0
Mean			\$123.7

Comparison Type	Range of Multiples		Enterprise Value (in millions)
LTM ID Unit EBITDA	\$17.9 ×	8.5x to 10.5x	= \$152.0 to \$187.7
CY08 ID Unit EBITDA	\$19.1 ×	7.5x to 9.5x	= \$142.9 to \$181.0
Implied secure ID business Valuation Range			\$142.9 to \$187.7
Mean			\$165.3

Precedent Transaction Analysis

Imperial Capital reviewed and compared selected financial information for the secure ID business with corresponding financial information for 132 selected security and integration solutions transactions involving companies relevant to the secure ID business that were announced or closed in the last three and a half years.

In its review of selected transactions, Imperial Capital considered the enterprise value implied in each of the selected transactions as a multiple of revenue and EBITDA for the LTM as of the time of the respective transaction, to the extent such data was publicly available. Imperial Capital then compared the multiples derived from the selected transactions with the corresponding multiples implied in the merger for Digimarc based on the same last LTM ratio. Multiples for the selected transactions were based on information from Mergerstat, Mergermarket, Capital IQ, filings with the SEC and company press releases. This analysis indicated the following implied enterprise value range of the secure ID business based on selected precedent transaction multiples applied to the secure ID business' trailing revenue and EBITDA results:

Comparison Type	Range of Multiples		Enterprise Value (in millions)
LTM ID Unit Revenue	\$96.6 ×	1.7x to 2.1x	= \$164.3 to \$202.9
LTM ID Unit EBITDA	\$17.9 ×	10.3x to 12.3x	= \$184.1 to \$219.9
Implied secure ID business Valuation Range			\$164.3 to \$219.9
Mean			\$192.1

Discounted Cash Flow Analysis

Imperial Capital performed a discounted cash flow analysis of the secure ID business and calculated a range of values using projections and financial information for the period ranging from fiscal year 2008 through fiscal year 2010, which we refer to as the projection period, provided by Digimarc's management. Imperial Capital calculated the implied present values of free cash flows for the secure ID business for the projection period using a range of discount rates from 14.7% to 19.7%

based on the weighted-average cost of capital. Imperial Capital calculated the terminal values for the secure ID business using two different methods (revenue and EBITDA) based on ranges of multiples from 1.1x to 1.5x (revenue) and 8.5x to 10.5x (EBITDA). Due to the secure ID business' projected growth in revenue and EBITDA and unlevered free cash flow through fiscal year 2010, Imperial Capital applied the multiples method to calculate the terminal value and enterprise value. The estimated terminal values were then discounted to implied present values using a range of discount rates from 14.7% to 19.7% based on the weighted-average cost of capital. For each combination of discount rate and terminal value multiple, Imperial Capital added the implied projection period present value of free cash flows to the implied present value of the terminal value to arrive at implied enterprise value for the secure ID business. Based on its discounted cash flow analysis, Imperial Capital estimated that the secure ID business present value of enterprise value ranged from \$166.9 million to \$246.3 million.

Miscellaneous

Imperial Capital acted as financial advisor to Digimarc in connection with, and advised on, certain negotiations concerning the Original Merger Agreement and the Merger Agreement. Under the terms of the engagement letter with Imperial Capital, Digimarc paid Imperial Capital a fee of \$300,000, which we refer to as the original opinion fee, upon the delivery of the fairness opinion in connection with the Original Merger Agreement, and Digimarc paid Imperial Capital a fee of \$50,000, which we refer to as the subsequent opinion fee, upon the delivery of the fairness opinion in connection with the Merger Agreement. Digimarc has also agreed to pay Imperial Capital a transaction fee upon completion of the transaction calculated pursuant to a formula based on the value of the consideration. Under t