

Warner Music Group Corp.  
Form DEF 14A  
January 25, 2008  
Table of Contents

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**SCHEDULE 14A**

**(Rule 14a-101)**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- |   |   |
|---|---|
| <input type="checkbox"/> Preliminary Proxy Statement                  | <input type="checkbox"/> <b>Confidential, For Use of the Commission</b> |
| <input checked="" type="checkbox"/> Definitive Proxy Statement        | <b>Only (as permitted by Rule 14a-6(e)(2))</b>                          |
| <input type="checkbox"/> Definitive Additional Materials              |   |
| <input type="checkbox"/> Soliciting Material Pursuant to § 240.14a-12 |   |

**Warner Music Group Corp.**

(Name of Registrant as Specified In Its Charter)

---

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

Payment of Filing Fee (Check the appropriate box):

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

(1) Title of each class of securities to which transaction applies:

---

Edgar Filing: Warner Music Group Corp. - Form DEF 14A

(2) Aggregate number of securities to which transaction applies:

---

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):

---

(4) Proposed maximum aggregate value of transaction:

---

(5) Total fee paid:

---

.. Fee paid previously with preliminary materials.

.. Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

---

(2) Form, Schedule or Registration Statement No.:

---

(3) Filing Party:

---

(4) Date Filed:



**Table of Contents**

January 25, 2008

Dear Fellow Stockholder:

You are cordially invited to attend Warner Music Group Corp.'s fiscal 2007 annual meeting of stockholders. The meeting will be held on Tuesday, February 26, 2008, at 10:00 a.m. (local time) at 66 East 55<sup>th</sup> Street, New York, New York 10022.

Details of the business to be conducted at the meeting are given in the attached Notice of Annual Meeting of Stockholders and the attached Proxy Statement. The Proxy Statement not only describes the items that stockholders are being asked to consider and vote on at the annual meeting, but also provides you with important information about our company. As you will see, this year's Proxy Statement contains new tables providing detailed information about compensation to our named executive officers and directors, as well as a more extensive discussion of our executive and director compensation philosophy and policies.

Whether or not you plan to attend the meeting in person, it is important that your shares be represented and voted at the meeting. After reading the enclosed Notice and Proxy Statement, please promptly submit your proxy or voting instructions by following the instructions on the enclosed proxy card.

Thomas H. Lee Funds and Bain Capital Funds and certain of their respective affiliates, which as of the record date of January 8, 2008 together beneficially owned shares of common stock representing approximately 53% of the voting power of our common stock, have advised us that they intend to vote all of their shares of common stock in favor of Proposal No. 2 listed in the attached Notice and Proxy Statement. Such action by these stockholders will be sufficient to constitute a quorum and to determine the outcome of this matter.

Only stockholders and persons holding proxies from stockholders may attend the fiscal 2007 annual meeting. If you are planning to attend the meeting in person, because of security procedures, **you will need to register in advance to gain admission to the meeting.** You can register by calling Warner Music Group Corp., Investor Relations at (212) 275-2000 or via the Internet at *Investor.Relations@wmg.com* by Friday, February 22, 2008. If you are a holder of record and plan to attend the meeting, you also can register by checking the appropriate box on the enclosed proxy card. All stockholders of record on January 8, 2008 are invited to attend the meeting. No ticket is required for admission. Seating is limited, however, and admission to the fiscal 2007 annual meeting will be on a first-come, first-served basis.

In addition to registering in advance, **you will be required to present government-issued photo identification (e.g., driver's license or passport) to enter the meeting.** If your shares are registered in your name, you should bring a form of photo identification to the meeting. If your shares are held in the name of a broker, dealer, bank, trustee or other nominee, you will need to bring a proxy or letter from that broker, dealer, bank, trustee or other nominee that confirms that you are the beneficial owner of those shares, together with a form of photo identification. Packages and bags will be inspected, and bags may have to be checked, among other measures that may be employed to enhance the security of those attending the meeting. These procedures may require additional time, so please plan accordingly.

I look forward to greeting those of you who are able to attend.

Sincerely,

Edgar Bronfman, Jr.  
*Chairman of the Board and Chief Executive Officer*

**YOUR VOTE IS IMPORTANT**

In order to ensure your representation at the meeting, please complete, sign and date the enclosed proxy as promptly as possible and return it in the enclosed envelope (to which no postage need be affixed if mailed in the United States). You need to vote in accordance with the instructions listed on the proxy card. If shares are held in a bank or brokerage account, you may be eligible to vote electronically or by telephone. Please refer to the enclosed proxy card for voting instructions.

**Table of Contents**

**Warner Music Group Corp.**

**75 Rockefeller Plaza**

**New York, New York 10019**

**(212) 275-2000**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**To Be Held On February 26, 2008**

The Annual Meeting (the Annual Meeting ) of Stockholders of Warner Music Group Corp. (the Company ) will be held on Tuesday, February 26, 2008 at 10:00 a.m. (local time). The meeting will take place at 66 East 55<sup>th</sup> Street, New York, New York 10022.

The purposes of the meeting are:

1. To elect 13 directors for a term of one year, and until their successors are duly elected and qualified;
2. To approve the Company's Amended and Restated 2005 Omnibus Award Plan;
3. To ratify the appointment of the firm of Ernst & Young LLP as independent registered public accountants of the Company for the fiscal year ending September 30, 2008; and

4. To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof. The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice of Annual Meeting of Stockholders. None of the proposals requires the approval of any other proposal to become effective. The close of business on January 8, 2008 is the record date for determining stockholders entitled to vote at the Annual Meeting. Only holders of the Company's common stock as of the record date are entitled to notice of and to vote on some or all of the matters listed in this Notice. The stock transfer books will not be closed between the record date and the date of the meeting. A list of stockholders entitled to vote at the Annual Meeting will be available for inspection at the Company's principal executive offices at the address listed above.

**Whether or not you plan to attend the Annual Meeting in person, please sign and date the enclosed proxy and return it promptly in the enclosed pre-addressed reply envelope.** Holders of record must vote by completing the enclosed proxy card. If shares are held in a bank or brokerage account, you may be eligible to vote electronically or by telephone. You need to vote in accordance with the instructions listed on the proxy card. Please refer to the enclosed proxy card for voting instructions. You may revoke a previously delivered proxy at any time prior to the meeting. Any stockholder of record who is present at the meeting may vote in person instead of by proxy, thereby canceling any previous proxy. You may not appoint more than three persons to act as your proxy at the meeting.

**Please note that, if you plan to attend the Annual Meeting in person, you will need to register in advance to be admitted.** You can register in advance by telephone by calling Warner Music Group Corp., Investor Relations at (212) 275-2000 or via the Internet at [Investor.Relations@wmg.com](mailto:Investor.Relations@wmg.com) by Friday, February 22, 2008. If you are a holder of record and plan to attend the Annual Meeting, you also can register by checking the appropriate box on your proxy card. The Annual Meeting will start promptly at 10:00 a.m. (local time). To avoid disruption, admission may be limited once the Annual Meeting begins.

**In addition to registering in advance, you will be required to present government-issued photo identification (e.g., driver's license or passport) to enter the Annual Meeting.** If your shares are registered in your name, you should bring a form of photo identification to the Annual Meeting. If your shares are held in the

**Table of Contents**

name of a broker, dealer, bank, trustee or other nominee, you will need to bring a proxy or letter from that broker, dealer, bank, trustee or other nominee that confirms that you are the beneficial owner of those shares, together with a form of photo identification.

BY ORDER OF THE BOARD OF DIRECTORS

PAUL M. ROBINSON

*Executive Vice President, General Counsel and Secretary*

New York, New York

January 25, 2008

**Table of Contents**

**TABLE OF CONTENTS**

	<b>Page</b>
<u>ANNUAL MEETING MATTERS</u>	1
<u>GENERAL INFORMATION ABOUT VOTING</u>	1
<u>PROPOSALS YOU MAY VOTE ON</u>	5
<u>PROPOSAL NO. 1: ELECTION OF DIRECTORS</u>	5
<u>PROPOSAL NO. 2: APPROVAL OF AMENDED AND RESTATED 2005 OMNIBUS AWARD PLAN</u>	6
<u>PROPOSAL NO. 3: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS</u>	12
<u>INFORMATION ABOUT DIRECTORS</u>	13
<u>BOARD OF DIRECTORS AND GOVERNANCE</u>	16
<u>Role of the Board</u>	16
<u>Corporate Governance</u>	16
<u>Independence</u>	17
<u>Executive Sessions and Meetings of Independent Directors</u>	18
<u>Board Attendance at Annual Meetings</u>	18
<u>Communication with the Board of Directors</u>	18
<u>Policies Governing Director Nominations</u>	19
<u>Code of Conduct</u>	20
<u>Committees of the Board of Directors</u>	20
<u>Audit Committee</u>	21
<u>Compensation Committee</u>	21
<u>Executive, Governance and Nominating Committee</u>	22
<u>Compensation Committee Interlocks and Insider Participation</u>	22
<u>DIRECTOR COMPENSATION</u>	23
<u>Other Compensation Information</u>	23
<u>Director Compensation in Fiscal 2007</u>	24
<u>STOCK OWNERSHIP OF PRINCIPAL STOCKHOLDERS AND MANAGEMENT</u>	25
<u>COMPENSATION COMMITTEE REPORT</u>	28
<u>EXECUTIVE COMPENSATION</u>	28
<u>COMPENSATION DISCUSSION AND ANALYSIS</u>	28
<u>Introduction</u>	28
<u>Compensation of our Named Executive Officers</u>	29
<u>Executive Compensation Objectives and Philosophy</u>	29
<u>Components of Executive Compensation</u>	30
<u>Employment Agreements</u>	30
<u>Key Considerations in Determining Executive Compensation</u>	31
<u>Base Salary</u>	32
<u>Annual Cash Bonus</u>	32
<u>Long-Term Equity Incentives</u>	33
<u>Tax Deductibility of Performance-Based Compensation and Other Tax Considerations</u>	34
<u>Benefits</u>	35
<u>Other Compensation Information</u>	35
<u>Perquisites</u>	35
<u>Other Compensation Policies</u>	35
<u>Timing of Equity Grants</u>	35

**Table of Contents**

	<b>Page</b>
<u>Pledges and Hedges of Stock</u>	35
<u>Summary Compensation Table</u>	36
<u>Grant of Plan-Based Awards in Fiscal 2007</u>	36
<u>Summary of NEO Employment and Equity Agreements</u>	37
<u>Fiscal 2007 Equity Grants</u>	41
<u>Outstanding Equity Awards at 2007 Fiscal-Year End</u>	41
<u>Option Exercises and Stock Vested in Fiscal 2007</u>	42
<u>Potential Payments upon Termination or Change-In-Control</u>	42
<u>CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS</u>	48
<u>AUDIT COMMITTEE REPORT</u>	51
<u>INDEPENDENT REGISTERED PUBLIC ACCOUNTANTS</u>	53
<u>Fees Paid to Ernst &amp; Young LLP</u>	53
<u>Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors</u>	53
<u>Other</u>	54
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u>	54
<u>STOCKHOLDERS PROPOSALS</u>	54
<u>Proposals for Inclusion in the Proxy Statement</u>	54
<u>Proposals Not Included in the Proxy Statement</u>	54
<u>EXPENSES AND SOLICITATION</u>	55
<u>HOUSEHOLDING</u>	55
<u>OTHER BUSINESS</u>	55
<u>WHERE YOU CAN FIND MORE INFORMATION</u>	56
<u>NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS</u>	56
<u>APPENDIX A AMENDED AND RESTATED 2005 OMNIBUS AWARD PLAN</u>	A-1



**Table of Contents**

**WARNER MUSIC GROUP CORP.**

**75 Rockefeller Plaza**

**New York, New York 10019**

**PROXY STATEMENT**

**FOR**

**ANNUAL MEETING OF STOCKHOLDERS**

**ANNUAL MEETING MATTERS**

These proxy materials are provided in connection with the solicitation of proxies by the Board of Directors of Warner Music Group Corp. (the Company), a Delaware corporation, for the Company's fiscal 2007 Annual Meeting (the Annual Meeting) of Stockholders to be held at 10:00 a.m. (local time) on Tuesday, February 26, 2008, at 66 East 55<sup>th</sup> Street, New York, New York 10022, or at any adjournments or postponements of the Annual Meeting. You may obtain directions to the meeting by contacting Investor Relations at (212) 275-2000 or via the Internet at [Investor.Relations@wmg.com](mailto:Investor.Relations@wmg.com).

**GENERAL INFORMATION ABOUT VOTING**

***General***

This Proxy Statement has information about the Annual Meeting and was prepared by our management for our Board of Directors. This Proxy Statement is being sent through the United States postal service or, if properly requested, by e-mail to stockholders on or around January 25, 2008.

***Purpose of the meeting***

The specific proposals to be considered and acted upon at the Annual Meeting are summarized in the accompanying Notice of Annual Meeting of Stockholders. Each proposal is described in more detail in this Proxy Statement.

***Who can vote?***

You can vote your shares of common stock if our records show that you owned the shares on the record date January 8, 2008. A total of 149,522,471.17 shares of common stock can vote at the Annual Meeting. You get one vote for each share of common stock that you hold.

***How do I vote if my shares are held in street name ?***

If your shares are held in the name of your broker, dealer, bank, trustee or other nominee, that party should give you instructions for voting your shares. If shares are held in a bank or brokerage account, you may be eligible to vote electronically or by telephone. The instructions set forth below apply to registered holders only and not those whose shares are held in the name of a nominee.

***How do I vote by proxy if I am a registered holder?***

Follow the instructions on the enclosed proxy card to vote on each proposal to be considered at the Annual Meeting. Sign and date the proxy card and mail it back to us in the enclosed envelope. The proxy holders named on the proxy card will vote your shares as you instruct. If you sign and return the proxy card but do not vote on a proposal, the proxy holders will vote for you on that proposal. Unless you instruct otherwise, the proxy holders will vote in the manner set forth below:

1. FOR the election of all director nominees listed below in Proposal No. 1; and



## **Table of Contents**

2. FOR the approval of our Amended and Restated 2005 Omnibus Award Plan (which we sometimes refer to in this Proxy Statement as the Amended 2005 Plan) as described in Proposal No. 2; and
3. FOR the ratification of the appointment of Ernst & Young LLP as our independent registered public accountants for the fiscal year ending September 30, 2008 as described in Proposal No. 3; and

4. In the manner that the proxy holders deem appropriate for any other proposal to be considered at the Annual Meeting. The proxy holders for the stockholders are Edgar Bronfman, Jr., Paul M. Robinson and Trent N. Tappe. A stockholder wishing to name another person as his or her proxy holder may do so by crossing out the names of the designated proxy holders and inserting the name of such other person to act as his or her proxy. In that case, it will be necessary for the stockholder to sign the proxy card and deliver it to the person named as his or her proxy holder and for the person so named to be present to vote at the Annual Meeting. Proxy cards so marked should not be mailed to us.

### ***How do I vote at the Annual Meeting?***

If you are a registered stockholder and you wish to vote at the Annual Meeting, written ballots will be available at the meeting. If your shares are held in street name in the name of a broker, dealer, bank, trustee or other nominee or holder of record and you decide to attend and vote at the Annual Meeting you will need to obtain a proxy, executed in your favor, from the holder of record to be able to vote at the Annual Meeting. If you vote by proxy and also attend the Annual Meeting, there is no need to vote again at the Annual Meeting unless you wish to change your vote.

### ***On what matters may I vote?***

1. The election of 13 directors for a term of one year, and until the next annual meeting of stockholders and until their successors are duly elected and qualified;
2. The approval of our Amended and Restated 2005 Omnibus Award Plan; and
3. The ratification of the appointment of Ernst & Young LLP as our independent registered public accountants for the fiscal year ending September 30, 2008.

### ***How does the Board of Directors recommend that I vote on the proposals?***

The Board of Directors recommends a vote FOR the election of each of the nominees of the Board of Directors (Proposal No. 1), FOR the approval of our Amended and Restated 2005 Omnibus Award Plan (Proposal No. 2) and FOR the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending September 30, 2008 (Proposal No. 3).

### ***What if other matters come up at the Annual Meeting?***

The matters described in this Proxy Statement are the only matters we know will be voted at the Annual Meeting. If other matters are properly presented at the Annual Meeting, the proxy holders will vote your shares as they see fit.

### ***Can I change my vote after I return my proxy card?***

Yes. At any time before the vote on a proposal, you can change your vote either by giving our Corporate Secretary a written notice revoking your proxy card, by personally appearing at the Annual Meeting or by signing, dating and returning to us a new proxy card. We will honor the proxy card with the latest date. However,



## **Table of Contents**

no revocation will be effective unless we receive notice of such revocation at or prior to the Annual Meeting. For those stockholders who submit a proxy electronically or by telephone, the date on which the proxy is submitted in accordance with the instructions listed on the proxy card is the date of the proxy.

### ***Can I vote in person at the Annual Meeting rather than by completing the proxy card?***

Although we encourage you to complete and return the proxy card to ensure that your vote is counted, you can attend the Annual Meeting and vote your shares in person.

### ***How is a quorum obtained?***

We will hold the Annual Meeting if a quorum is present. A quorum will be present if holders of a majority of the outstanding shares of common stock entitled to vote on a matter at the Annual Meeting are present in person or represented by proxy at the meeting. If a quorum is not present at the Annual Meeting, the Annual Meeting may be adjourned from time to time until a quorum is obtained. If you sign and return your proxy card, your shares will be counted to determine whether we have a quorum even if you abstain or fail to provide voting instructions on any of the proposals listed on the proxy card. If your shares are held in the name of a nominee, and you do not tell the nominee how to vote your shares, these shares will be counted for purposes of determining the presence or absence of a quorum for the transaction of business.

### ***How many votes are required to approve the proposals?***

A plurality of the votes of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on the election of directors is required for the election of directors. Therefore, the 13 directors who receive the most votes will be elected. A withhold vote in the election of directors will have the same effect as an abstention. However, neither an abstention nor a withhold vote will affect the outcome of the election.

The affirmative vote of the majority of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on the proposal is required for the adoption Proposal No. 2, provided that a majority of the outstanding shares of common stock are voted on the proposal. Therefore, abstentions will have the effect of a vote against Proposal No. 2, while broker non-votes will have no effect on the outcome of Proposal No. 2 (assuming a majority of the outstanding shares of common stock are otherwise voted on the proposal).

As of January 8, 2008, Thomas H. Lee Funds and Bain Capital Funds and certain of their respective affiliates together beneficially owned approximately 53% of our outstanding common stock. These stockholders have advised us that they intend to vote all of their shares of common stock in favor of Proposal No. 2. Such action by these stockholders will be sufficient to determine the outcome of this matter since such shares are sufficient to constitute a quorum, a majority of the shares present in person or represented by proxy at the Annual Meeting and a majority of the outstanding shares voted on the proposal.

### ***What is a broker non-vote ?***

The New York Stock Exchange ( NYSE ) has rules that govern brokers who have record ownership of listed company stock held in brokerage accounts for their clients who beneficially own the shares. Under these rules, brokers who do not receive voting instructions from their clients have the discretion to vote uninstructed shares on certain matters ( discretionary matters ) but do not have discretion to vote uninstructed shares as to certain other matters ( non-discretionary matters ). A broker may return a proxy card on behalf of a beneficial owner from whom the broker has not received instructions that casts a vote with regard to discretionary matters but expressly states that the broker is not voting as to non-discretionary matters. The broker s inability to vote with respect to the non-discretionary matters with respect to which the broker has not received instructions from the beneficial owner is referred to as a broker non-vote. Under current NYSE interpretations, only Proposal No. 2 is considered a non-discretionary matter.

## **Table of Contents**

### ***Who will count the votes?***

Broadridge Financial Solutions, Inc. will count the votes and act as the inspector of election.

### ***Who is making and paying for this proxy solicitation?***

This proxy is solicited on behalf of the Board of Directors. The Company will pay the cost of distributing this Proxy Statement and related materials. Our officers may solicit proxies by mail or telephone. We will furnish copies of these materials to banks, brokers, fiduciaries, custodians and other nominees that hold shares on behalf of beneficial owners so that they may forward the materials to the beneficial owners. The Company may, if appropriate, retain an independent proxy solicitation firm to assist the Company in soliciting proxies. If the Company does retain a proxy solicitation firm, the Company would pay such firm's customary fees and expenses which fees would be expected to be approximately \$10,000, plus expenses.

### ***Is my vote confidential?***

Proxy cards, ballots and voting tabulations that identify individual stockholders are mailed or returned directly to Broadridge Financial Solutions and handled in a manner that protects your voting privacy. Your vote will not be disclosed EXCEPT:

1. as needed to permit Broadridge Financial Solutions to tabulate and certify the vote;
2. as required by law; or
3. in limited circumstances such as a proxy contest in opposition to the Board of Directors.

In addition, all comments written on the proxy card or elsewhere will be forwarded to management, but your identity will be kept confidential unless you ask that your name be disclosed.

### ***Company information and mailing address***

We were incorporated under Delaware law on November 21, 2003. Our principal executive offices are located at 75 Rockefeller Plaza, New York, New York 10019. Our telephone number is (212) 275-2000. Our website address is [www.wmg.com](http://www.wmg.com).

References in this Proxy Statement to WMG, Company, we, us and our refer to Warner Music Group Corp. and our consolidated subsidiaries unless the context requires otherwise. Information on our website is not intended to be incorporated into this Proxy Statement.

**Table of Contents**

**PROPOSALS YOU MAY VOTE ON**

**PROPOSAL NO. 1:**

**ELECTION OF DIRECTORS**

Upon the recommendation of the Executive, Governance and Nominating Committee, our Board of Directors has nominated for election at the Annual Meeting the following slate of 13 nominees:

Edgar Bronfman, Jr.

Shelby W. Bonnie

Richard Bressler

John P. Connaughton

Phyllis E. Grann

Michele J. Hooper

Scott L. Jaeckel

Seth W. Lawry

Thomas H. Lee

Ian Loring

Jonathan M. Nelson

Mark Nunnally

Scott M. Sperling

Each of the nominees is currently serving as a director of the Company and was elected at our 2006 annual meeting. The Company's Board of Directors may consist of up to 14 directors pursuant to the terms of the stockholders agreement described below under "Certain Relationships and Related Party Transactions." For more information regarding the independence of our directors and terms of the stockholders agreement regarding the size of the Board of Directors, please see "Board of Directors and Governance" Independence.

For more information about each director, please see "Information about Directors." The persons named in the enclosed proxy intend to vote such proxy for the election of each of the 13 nominees named above, unless the stockholder indicates on the proxy that the vote should be withheld from any or all of the nominees. The Company expects each nominee for election as a director at the Annual Meeting to be able to accept such nomination. If any nominee is unable to accept the nomination, proxies will be voted in favor of the remainder of those nominated and may be voted for substitute nominees. Alex Zubillaga, one of the Company's executive officers, is the brother-in-law of Mr. Bronfman. There are no other family relationships among the nominees or between any nominee and any of our executive officers.

**Vote Required for Approval**

A plurality of the votes of the shares present in person or represented by proxy at the Annual Meeting and entitled to vote on the election of directors is required for the election of directors. The 13 nominees receiving the highest number of affirmative votes of the shares entitled to vote at the Annual Meeting will be elected to the Board of Directors to serve until the next annual meeting of stockholders and until their successors have been elected and qualified. You may not vote for more individuals than the number nominated. Stockholders may also not cumulate votes in the election of directors.

Edgar Filing: Warner Music Group Corp. - Form DEF 14A

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE ELECTION OF  
EACH OF THE DIRECTOR NOMINEES SET FORTH ABOVE**

5



---

**Table of Contents**

**PROPOSAL NO. 2:**

**APPROVAL OF AMENDED AND RESTATED 2005 OMNIBUS AWARD PLAN**

**General**

The Company's stockholders are being asked to approve an amendment and restatement of the Company's 2005 Omnibus Award Plan (the "Amended 2005 Plan"). The Company's 2005 Omnibus Award Plan (the "2005 Plan") was originally approved by the Company's stockholders in May 2005 and amended and restated at the last annual meeting of stockholders in February 2007. The capitalized terms used in this Proposal No. 2 shall have the same meanings set forth in the Amended 2005 Plan unless otherwise indicated.

The purpose of the Amended 2005 Plan is to create additional flexibility to continue to provide the Company's employees, directors and consultants, whose present and potential contributions are important to the success of the Company, an incentive through the opportunity for ownership of equity of the Company, to continue in service to the Company, and to help the Company attract, motivate and retain employees in a competitive market for talent. The use of equity incentive programs is an important component of the Company's compensation and incentive philosophy as the level of individual employee responsibility increases. Equity incentive programs align compensation and incentives for employees with stockholder interests. Utilization of long-term equity incentives also increases the proportion of individual employee compensation that is dependent upon the financial performance of the Company and segment financial performance. As further discussed below, the Company believes that the proposed amendments will allow the Company to continue to emphasize this alignment of compensation and incentives with stockholder interests by providing for additional shares that may be granted as awards as well as providing additional flexibility with respect to the size of awards that may be granted. The Company believes a broad and flexible equity incentive plan is critical to attract and retain talent in order to operate the Company at competitive levels.

**Proposed Amendments**

We are asking stockholders to approve adding 16,500,000 shares to the 2005 Plan by increasing the maximum aggregate number of shares of Stock in respect of which awards may be granted under the 2005 Plan from 3,416,133 shares to 19,916,133 shares. In addition, we are asking stockholders to approve the following additional amendments to the 2005 Plan:

An increase in the maximum amount of options and stock appreciation rights any single participant may be granted in any one fiscal year from 1,500,000 shares of Common Stock to 6,000,000 shares of Common Stock; and

An increase in the maximum amount of performance compensation awards any single participant may be granted in any one fiscal year from 1,500,000 shares of Common Stock to 6,000,000 shares of Common Stock.

A copy of the Amended 2005 Plan is attached as Appendix A hereto and is marked to show all changes from the existing 2005 Plan. A comparison of material differences between the provisions of the 2005 Plan as previously amended and the proposed Amended 2005 Plan is included in table format below.

**Purpose of the Amendments**

We are asking stockholders to ratify and approve these amendments in order to comply with applicable requirements of the NYSE and, to the extent permitted by law, to preserve the tax deductible status for certain awards granted under the Amended 2005 Plan. The stock options (and, if any, stock appreciation rights) that may be granted under the Amended 2005 Plan are intended to qualify as performance-based compensation within the meaning of Section 162(m) of the Code. In addition, the Amended 2005 Plan would continue to authorize performance-based stock awards that would give the Company the flexibility to structure stock-based bonus opportunities as performance-based within the meaning of Section 162(m).

**Table of Contents**

The amendments to the 2005 Plan would increase the maximum number of shares available for awards under the 2005 Plan. The Company has not added any shares to the 2005 Plan since it was approved at the time of the Company's initial public offering in May 2005. The Company believes it is necessary at this time to expand the 2005 Plan to ensure that it has adequate capacity to attract and retain talent during an important stage in a significant and fundamental transformation of the Company and the music industry.

The amendments to the 2005 Plan would also increase the limitation on the maximum number of shares or performance compensation awards awarded to a person in any fiscal year to 6,000,000 shares of Common Stock. The Company believes that the current 1,500,000 share limit places the Company at a competitive disadvantage as the Company competes for key executive talent and reduces the Company's flexibility to utilize equity incentives to attract, motivate and retain key executive talent and align compensation to stockholder interests. The Company has been issuing, and anticipates continuing to issue, its equity awards based upon competitive market and other factors. The increase in these limits may result in the percentage of total awarded shares that are awarded to certain participants as a percentage of total awards issued to all employees to rise by virtue of the ability to increase the total shares awarded to certain participants in a given fiscal year, thereby resulting in larger awards to a smaller number of employees. The Company believes that the 1,500,000 share limit reduces the flexibility of the Company and our Board of Directors to utilize a mix of stock options and other awards that best facilitates the achievement of the Company's objectives of attracting, motivating and retaining key executives and aligning compensation to stockholder interests in a competitive market for executive talent.

**Comparison of Material Differences between the Provisions of the  
existing 2005 Plan and the Amended 2005 Plan**

Provision	2005 Plan	Amended 2005 Plan
Maximum number of shares available for awards	3,416,133 shares	19,916,133 shares
Maximum amount of options and stock appreciation rights any single participant may be granted in any one fiscal year	1,500,000 shares	6,000,000 shares
Maximum amount of performance compensation awards any single participant may be granted in any one fiscal year	1,500,000 shares	6,000,000 shares

As of January 8, 2008, Thomas H. Lee Funds and Bain Capital Funds and certain of their respective affiliates together beneficially owned approximately 53% of our outstanding common stock. These stockholders have advised us that they intend to vote all of their shares of common stock in favor of Proposal No. 2. Such action by these stockholders will be sufficient to determine the outcome of this matter since such shares are sufficient to constitute a quorum, a majority of the shares present in person or represented by proxy at the Annual Meeting and a majority of the outstanding shares voted on the proposal.

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE**

**APPROVAL OF THE AMENDMENT AND RESTATEMENT OF THE 2005 OMNIBUS AWARD PLAN**

**Summary of the Amended and Restated 2005 Omnibus Award Plan**

Below is a general description of the principal terms of the Amended 2005 Plan. This description is qualified in its entirety by the terms of the Amended 2005 Plan, a copy of which is attached to this Proxy Statement as Appendix A and is incorporated herein by reference.

**Table of Contents**

A total of 3,416,133 shares of Common Stock of the Company were originally approved for issuance under the 2005 Plan. As of January 8, 2008, there were approximately 750,000 shares remaining available for future grants under the existing 2005 Plan. This Proposal No. 2 would increase the number of shares available for awards under the Amended 2005 Plan by 16,500,000, to 19,916,133. Of these additional shares proposed to be added to the 2005 Plan, the Company has already made contingent grants to employees of approximately 1,600,000 options subject to stockholder approval of adding additional shares to the 2005 Plan at the Annual Meeting. Therefore, if the increase in the number of shares eligible for grants under the 2005 Plan is approved, these contingent option grants will remain outstanding. If stockholder approval is not obtained, then these option grants will be cancelled. None of these contingent grants were made to executive officers of the Company. Pro forma for the additional shares proposed to be added to the 2005 Plan and these contingent grants, there would be approximately 15,650,000 shares remaining for future grants under the existing 2005 Plan.

If these amendments to the 2005 Plan are approved, this will result in the issuance of the contingent option grants described above, which will be distributed as follows:

**New Plan Benefits****Amended 2005 Plan**

<b>Name and Position</b>	<b>Dollar Value (\$)</b>	<b>Number of Options</b>
Edgar Bronfman, Jr., Chairman of the Board and Chief Executive Officer		
Michael D. Fleisher, Executive Vice President and Chief Financial Officer		
Lyor Cohen, Chairman and CEO, U.S. Recorded Music		
David H. Johnson, Chairman and CEO, Warner/Chappell Music		
Alex Zubillaga, Executive Vice President, Digital Strategy and Business Development		
Executive Group		
Non-Executive Director Group		
Non-Executive Officer Employee Group	\$ 4,680,509(1)	1,592,010

(1) Grant date fair value assumptions are disclosed in Note 15, *Stock-Based Compensation Plans*, to our Consolidated Financial Statements found in our Annual Report on Form 10-K for the year ended September 30, 2007.

Under the 2005 Plan, no participant can be granted awards of options and stock appreciation rights with respect to more than 1,500,000 shares of Common Stock in any one fiscal year and no participant can be granted more than 1,500,000 shares of Common Stock with respect to performance compensation awards in any one fiscal year. Under the Amended 2005 Plan, no participant could be granted awards of options and stock appreciation rights with respect to more than 6,000,000 shares of Common Stock in any one fiscal year and no participant could be granted more than 6,000,000 shares of Common Stock with respect to performance compensation awards in any one fiscal year.

Under the Amended 2005 Plan, if any award is forfeited, or if any option terminates, expires or lapses without being exercised, shares of our Common Stock subject to such award will again be available for future grant. The Plan is administered by the Compensation Committee (the Administrator). If there is any change in our corporate capitalization, the Administrator in its sole discretion may make substitutions or adjustments to the number of shares reserved for issuance under the Amended 2005 Plan, the number of shares covered by awards then outstanding under the Amended 2005 Plan, the limitations on awards under the Amended 2005 Plan, the exercise price of outstanding options and such other equitable substitutions or adjustments as it may determine appropriate. The Amended 2005 Plan will have a term of ten years from the date the 2005 Plan was initially adopted and no further awards may be granted after that date. Under the Amended 2005 Plan, the Administrator will administer and interpret the plan and has the power to make awards, to determine when and to whom awards will be granted, the form of each award, the amount of each award and any other terms or conditions of each award consistent with the terms of the Amended 2005 Plan. Awards may be made to any of our employees, directors, officers and consultants and those of our subsidiaries or their respective affiliates. The types of awards

**Table of Contents**

that may be granted are nonqualified stock options, incentive (qualified) stock options (unless otherwise determined by the committee, all stock options will have an exercise price of no less than fair market value at the date of grant), stock appreciation rights, restricted stock awards, restricted stock units, stock bonus awards, phantom stock awards, performance compensation awards or any combination of the foregoing. The Administrator may grant any award under the Amended 2005 Plan in the form of a cash bonus or in the form of a performance compensation award, the vesting of which is conditioned on the satisfaction of certain performance goals. The maximum amount payable to any participant pursuant to a cash bonus under the Amended 2005 Plan is \$10,000,000. The maximum term of an option granted under the Amended 2005 Plan will be ten years from the date of grant (or five years in the case of an incentive stock option granted to a 10% stockholder). At the election of the Administrator the value of a restricted stock unit award may be paid in cash or shares. The Administrator may establish performance goals with reference to one or more of the following:

net earnings or net income (before or after taxes)	cash flow (including, but not limited to, operating cash flow, free cash flow and cash flow return on capital)	expense targets
basic or diluted earnings per share (before or after taxes) or earnings per share growth	earnings before or after taxes, interest, depreciation and/or amortization (EBITDA) or EBITDA growth	margins, operating efficiency or inventory control
net revenue or net revenue growth	operating income before or after depreciation and/or amortization (OIBDA) or OIBDA growth	enterprise value
gross profit or gross profit growth	gross or operating margins	objective measures of customer satisfaction
net operating profit (before or after taxes) or net operating profit growth	productivity ratios	working capital targets
return measures (including, but not limited to, return on assets, capital, invested capital, equity or sales)	share price (including, but not limited to, growth measures and total stockholder return)	measures of economic value added

Each award agreement will specify the number and type of award, together with any other terms and conditions as determined by the Administrator in its sole discretion. In the event of a change in control (as defined in the Amended 2005 Plan), all outstanding options and equity (other than performance compensation awards) issued under the Amended 2005 Plan shall fully vest and performance compensation awards shall vest, as determined by the Administrator based on the level of attainment of the performance goals. The Administrator may, in its discretion, cancel outstanding awards and pay, in cash or stock, the value of the awards to the participants in connection with a change in control.

*Section 162(m).* In general, Section 162(m) of the Internal Revenue Code (the Code) denies a publicly held corporation a deduction for U.S. federal income tax purposes for compensation in excess of \$1,000,000 per year per person to its chief executive officer and the four other officers whose compensation is disclosed in its

**Table of Contents**

proxy statement, subject to certain exceptions. An exception to this rule applies to compensation that is paid pursuant to a stock incentive plan approved by stockholders and that specifies, among other things, the maximum number of shares with respect to which options and stock appreciation rights may be granted to eligible participants under such plan during a specified period. The 2005 Plan is intended to satisfy rule requirements in order to qualify awards made under the plan for deductions under Section 162(m).

*Section 409A.* The American Jobs Creation Act of 2004 introduced a new section of the Code ( Section 409A ) covering certain nonqualified deferred compensation arrangements. Section 409A generally establishes new rules that must be followed with respect to covered deferred compensation arrangements in order to avoid the imposition of an additional 20% tax (plus interest) on the service provider who is entitled to receive the deferred compensation. Certain awards that may be granted under the Amended 2005 Plan may constitute deferred compensation within the meaning of and subject to Section 409A. The Amended 2005 Plan is intended to be interpreted and operated in accordance with Section 409A, including any regulations or guidance issued by the Treasury Department, and contains a number of provisions intended to avoid the imposition of additional tax on the Amended 2005 Plan participants under Section 409A. The Compensation Committee may amend the Amended 2005 Plan and outstanding awards to preserve the intended benefits of awards granted under the Amended 2005 Plan and to avoid the imposition of an additional tax under Section 409A. In addition, no award under the Amended 2005 Plan can be granted, deferred, accelerated, extended, paid out or modified under the Amended 2005 Plan in a manner that would result in the imposition of an additional tax on a participant under Section 409A. If a payment with respect to an award would result in tax liability to the participant under 409A, the Company will not make the payment when otherwise required and instead will make the payment on the first day that payment would not result in the tax liability.

**Equity Compensation Plan Information**

The following table provides information as of September 30, 2007 with respect to shares of our common stock that may be issued under our existing equity compensation plans.

<b>Plan Category</b>	<b>Number of Securities to be Issued upon Exercise of Outstanding Options</b>	<b>Weighted Exercise Price of Outstanding Options</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in first column)</b>
Equity Compensation Plans Approved by Stockholders(1)	4,814,950	\$ 10.91	820,929
Equity Compensation Plans Not Approved by Stockholders			

(1) Consists of the Amended and Restated 2005 Omnibus Award Plan, as well as individual long-term incentive plan (LTIP) and individual stock option agreements.

*LTIP and Individual Stock Option Agreements*

In 2004, the Company's Board of Directors approved a form of long-term incentive plan ( LTIP ) stock option agreement for grants of options to eligible individuals. Eligible individuals include any employee, director or consultant of the Company or any of its affiliates, or any other entity designated by the Company's Board of Directors in which the Company has an interest, who is selected by the Compensation Committee to receive an award. The Board authorized the granting of options to purchase up to 1,355,066 shares of our common stock pursuant to the LTIP program. The Company has granted options and may grant additional stock options under the LTIP stock option agreements to certain members of our current or future management. The Board also approved the granting of options to purchase 3,701,850 shares of our common stock under stock option agreements with certain members of our management. Individual option agreements and options granted under the LTIP program generally will have a 10-year term and the exercise price will equal at least 100% of the fair

**Table of Contents**

market value on the date of the grant. With respect to each option granted pursuant to individual option agreements or an LTIP stock option agreement, one-third of the shares covered by the option generally vest and become exercisable in four equal installments on the day prior to each of first through fourth anniversaries of the effective date of the LTIP stock option agreement, subject to the employee's continued employment. Two-thirds of the shares covered by the option generally vest and become exercisable based on the occurrence of both a service condition (which is the same as the service condition described with respect to the service-based portion of the option) and a performance condition. The performance condition is met if, following an initial public offering or certain other events (including a change in control), a specified investment return is achieved by the investors (one-half of such shares require one return level and the other one-half of such shares require a different return level). The performance-based portion of the option also vests, subject to the employee's continued employment, on the day prior to the seventh anniversary of the effective date of the individual or LTIP stock option agreement and the service condition applicable to the performance-based option will be deemed to have been attained upon certain terminations following or in anticipation of a change in control. All of the performance-based requirements have been achieved for all of these grants, therefore, only the service condition remains as a vesting requirement.

*2005 Omnibus Award Plan*

In May 2005, we adopted the 2005 Omnibus Award Plan, or 2005 Plan, which authorized the granting of stock-based awards to purchase up to 3,416,133 shares of our common stock. The 2005 Plan was amended and restated as of February 23, 2007. Under the 2005 Plan, the Administrator will administer the plan and has the power to make awards, to determine when and to whom awards will be granted, the form of each award, the amount of each award, and any other terms or conditions of each award consistent with the terms of the 2005 Plan. Awards may be made to employees, directors and others as set forth in the 2005 Plan. The types of awards that may be granted include restricted and unrestricted stock, incentive and non-statutory stock options, stock appreciation rights, performance units and other stock-based awards. Each award agreement specifies the number and type of award, together with any other terms and conditions as determined by the Administrator in its sole discretion. Eligible employees include any employee who does not already have any other equity participation in the Company. The Company has granted options and restricted stock and may grant additional awards under the 2005 Plan to certain members of our current or future management and directors. Options granted generally have a 10-year term, the exercise price will equal at least 100% of the fair market value on the date of the grant and generally vest in four equal installments on the day prior to each of first through fourth anniversaries of the effective date of the stock option agreement, subject to the employee's continued employment. The 2005 Plan and the proposed Amended 2005 Plan are described further in Proposal No. 2 above.

**Table of Contents**

**PROPOSAL NO. 3:**

**RATIFICATION OF APPOINTMENT OF INDEPENDENT**

**REGISTERED PUBLIC ACCOUNTANTS**

The Audit Committee has selected Ernst & Young LLP as independent registered public accountants of the Company to audit its consolidated financial statements for the fiscal year ending September 30, 2008 and the Board of Directors has determined that it would be desirable to request that the stockholders ratify such appointment. Before selecting Ernst & Young, the Audit Committee considered the firm's qualifications as independent registered public accountants and concluded that based on its prior performance and its reputation for integrity and competence, it was qualified. The Audit Committee also considered whether any non-audit services performed for the Company by Ernst & Young would impair Ernst & Young's independence and concluded that it would not.

Ernst & Young has audited the Company's financial statements since the Company was acquired from Time Warner Inc. in March 2004.

A representative of Ernst & Young is expected to be present at the Annual Meeting, will have an opportunity to make a statement if he or she desires to do so and is expected to be available to respond to appropriate questions.

**Vote Required for Approval**

Stockholder ratification is not required for the appointment of Ernst & Young as our independent registered public accountants for the fisca