

TIME WARNER INC.  
Form DEF 14A  
April 08, 2013  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**

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

Filed by the Registrant ☒

Filed by a Party other than the Registrant ☐

Check the appropriate box:

☐ Preliminary Proxy Statement

☐ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

☒ Definitive Proxy Statement

☐ Definitive Additional Materials

☐ Soliciting Material Pursuant to § 240.14a-12

# Time Warner Inc.

(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:

(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:

## Edgar Filing: TIME WARNER INC. - Form DEF 14A

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

(3) Filing Party:

(4) Date Filed:

**Table of Contents**

April 8, 2013

Dear Fellow Stockholder:

You are cordially invited to attend Time Warner Inc.'s 2013 Annual Meeting of Stockholders. The meeting will be held on Thursday, May 23, 2013, at 10:00 a.m. (local time) at the Omni Hotel at CNN Center in Atlanta, Georgia. A map with directions to the meeting is provided on the last page of this Proxy Statement. If you are unable to attend the meeting in person, please listen to the webcast live on the Internet at [www.timewarner.com/annualmeetingmaterials](http://www.timewarner.com/annualmeetingmaterials).

Details about the business to be conducted at the Annual Meeting and other information can be found in the attached Notice of Annual Meeting of Stockholders and Proxy Statement. As a stockholder, you will be asked to vote on a number of proposals.

Whether or not you plan to attend the Annual Meeting of Stockholders in person, your vote is important. After reading the attached Notice of Annual Meeting of Stockholders and Proxy Statement, please submit your proxy or voting instructions promptly.

We look forward to seeing those of you who are able to attend the Annual Meeting in person.

Sincerely,

Jeffrey L. Bewkes

*Chairman of the Board*

*and Chief Executive Officer*

**YOUR VOTE IS IMPORTANT. PLEASE PROMPTLY SUBMIT YOUR PROXY**

**BY INTERNET, TELEPHONE OR MAIL.**

**Table of Contents**

## **NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

Time Warner Inc.

One Time Warner Center

New York, NY 10019-8016

The Annual Meeting (the Annual Meeting ) of Stockholders of Time Warner Inc. (the Company ) will be held on Thursday, May 23, 2013, at 10:00 a.m. (local time). The meeting will take place at:

Omni Hotel at CNN Center

Grand Ballroom, M4 Level, North Tower

100 CNN Center

Atlanta, GA 30303

(see directions to the meeting and parking instructions on the last page)

The purposes of the meeting are:

1. To elect 11 directors named in the attached Proxy Statement for a term of one year and until their successors are duly elected and qualified;
2. To ratify the appointment of the firm Ernst & Young LLP as independent auditors of the Company for 2013;
3. To hold an annual advisory vote to approve named executive officer compensation;
4. To approve the Time Warner Inc. 2013 Stock Incentive Plan; and
5. To transact such other business as may properly come before the Annual Meeting.

The close of business on March 25, 2013, is the record date for determining stockholders entitled to vote at the Annual Meeting or any adjournments or postponements thereof. Only holders of the Company's common stock as of the record date are entitled to vote on the proposals described in this Notice of Annual Meeting of Stockholders and the accompanying Proxy Statement.

You can vote your shares using one of the following methods:

If you received a Notice of Internet Availability of Proxy Materials, submit your proxy or voting instructions via the Internet using the instructions included in the Notice of Internet Availability of Proxy Materials;

## Edgar Filing: TIME WARNER INC. - Form DEF 14A

If you received a paper copy of the proxy materials, follow the instructions on the proxy card or voting instruction form and submit your proxy or voting instructions (i) via the Internet, (ii) by telephone or (iii) by completing and signing the written proxy card or voting instruction form and returning it in the pre-addressed reply envelope included with the printed proxy materials; or

Attend and vote at the Annual Meeting.

**Whether or not you plan to attend the Annual Meeting in person, please promptly submit your proxy or voting instructions by Internet, telephone or mail** by following the instructions found on your Notice of Internet Availability of Proxy Materials, proxy card or voting instruction form. Any holder of record who is present at the Annual Meeting may vote in person instead of by proxy, thereby revoking any previous proxy. If your shares are held through a bank or brokerage account, you will need to contact your bank or broker to obtain a written legal proxy from the record holder of your shares to vote in person at the Annual Meeting.

If you are planning to attend the Annual Meeting in person, because of security procedures, **you should register in advance to be admitted to the Annual Meeting**. You can register in advance by calling (855) 840-9414 by Monday, May 20, 2013. In addition to registering in advance, **you will be required to present government-issued photo identification** (e.g., driver's license or passport) to be admitted to the Annual Meeting. Inspection of packages and bags, among other measures, may be employed to enhance the security of those attending the Annual Meeting. These procedures may require additional time, so please plan accordingly. To avoid disruption, admission may be limited once the Annual Meeting begins.

TIME WARNER INC.

PAUL F. WASHINGTON

*Corporate Secretary*

April 8, 2013

**Table of Contents**

**TABLE OF CONTENTS**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**2013 PROXY STATEMENT SUMMARY** 1

**PROXY STATEMENT** 9

Submitting Your Proxy 9

**COMPANY PROPOSALS** 10

**PROPOSAL 1: Election of Directors** 10

Director Nominees for 2013 Annual Meeting 10

Vote Required for Approval 10

Background of Director Nominees for 2013 Annual Meeting 11

Director Nomination Process 19

Criteria for Membership on the Board 19

**PROPOSAL 2: Ratification of Appointment of Independent Auditors** 21

Vote Required for Approval 21

**PROPOSAL 3: Annual Advisory Vote to Approve Named Executive Officer Compensation** 22

Vote Required for Approval 22

**PROPOSAL 4: Approval of the Time Warner Inc. 2013 Stock Incentive Plan** 23

General 23

Why the Board is Seeking Approval of the 2013 Plan 23

Comparison of the 2010 Plan and 2013 Plan 24

Reasons Why the Board Believes Stockholders Should Vote to Approve the 2013 Plan 24

Outstanding Awards 26

Description of the 2013 Plan 26

Awards under the 2013 Plan and Awards During 2012 30

Tax Status of 2013 Plan Awards 30

Other Information 31

Vote Required for Approval 31

**EQUITY COMPENSATION PLAN INFORMATION** 32

**CORPORATE GOVERNANCE AND BOARD MATTERS** 33

Corporate Governance Documents 33

Board Responsibility and Oversight of Risk 33

Independent Directors 33

Board Leadership 35

Board Meetings, Executive Sessions and Attendance 36

Committees of the Board 36

Compensation Committee Interlocks and Insider Participation 37

Codes of Conduct 38

Policy and Procedures Governing Related Person Transactions 38

Corporate Social Responsibility 38

Ethical Sourcing Guidelines 38

Political Activity Policies, Oversight and Disclosure 39

**DIRECTOR COMPENSATION** 40

**SECURITY OWNERSHIP** 45

Security Ownership of the Board of Directors and Executive Officers 45

Security Ownership of Certain Beneficial Owners 46

## **Table of Contents**

<b><u>AUDIT-RELATED MATTERS</u></b>	47
<u>Report of the Audit and Finance Committee</u>	47
<u>Policy Regarding Pre-Approval of Services Provided by the Independent Auditors</u>	47
<u>Services Provided by the Independent Auditors</u>	48
<b><u>EXECUTIVE COMPENSATION</u></b>	49
<u>Compensation Discussion and Analysis</u>	49
<u>Introduction</u>	49
<u>Executive Summary</u>	49
<u>Section 1 Compensation Philosophy</u>	56
<u>Section 2 Components of Executive Compensation</u>	56
<u>Section 3 How Executive Compensation is Established</u>	57
<u>Section 4 2012 Compensation</u>	60
<u>Section 5 Compensation Policies and Practices</u>	65
<u>Compensation and Human Development Committee Report</u>	68
<u>Compensation Programs and Risk Management</u>	68
<u>Independent Compensation Consultant</u>	68
<u>Summary Compensation Table</u>	70
<u>Grants of Plan-Based Awards Table</u>	72
<u>Outstanding Equity Awards</u>	74
<u>Option Exercises and Stock Vesting</u>	77
<u>Pension Plans</u>	77
<u>Deferred Compensation</u>	81
<u>Employment Agreements</u>	83
<u>Potential Payments Upon Termination of Employment, Disability, Death or Change in Control</u>	85
<b><u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE</u></b>	92
<b><u>OTHER PROCEDURAL MATTERS</u></b>	92
<u>Procedures for Submitting Stockholder Proposals</u>	92
<u>Procedures for Submitting Director Recommendations and Nominations</u>	92
<u>Communicating with the Board of Directors</u>	93
<b><u>INFORMATION ABOUT THIS PROXY STATEMENT AND THE ANNUAL MEETING</u></b>	94
<b><u>ANNEX A: NON-GAAP FINANCIAL MEASURES</u></b>	A-1
<b><u>ANNEX B: TIME WARNER INC. 2013 STOCK INCENTIVE PLAN</u></b>	B-1



**Table of Contents****2013 PROXY STATEMENT SUMMARY**

*This summary highlights information contained in this Proxy Statement. You should read the entire Proxy Statement carefully before voting.*

**Annual Meeting of Stockholders**

**Date and Time** Thursday, May 23, 2013, at 10:00 a.m. (local time)

**Place** Omni Hotel at CNN Center

Grand Ballroom, M4 Level, North Tower

100 CNN Center

Atlanta, GA 30303

(see directions to the meeting and parking instructions on the last page)

**Record Date** March 25, 2013

**Voting** Every holder of Time Warner common stock, par value \$0.01 per share ( Common Stock ), on the record date will be entitled to one vote per share on all matters properly presented at the Annual Meeting.

**Matters to be Voted on at the Annual Meeting**

	Page Reference												
Matter	Board Recommendation For More Information												
<p>Election of 11 directors for a term of one year and until their successors are duly elected and qualified</p> <table> <tr> <td>James L. Barksdale</td><td>Fred Hassan</td></tr> <tr> <td>William P. Barr</td><td>Kenneth J. Novack</td></tr> <tr> <td>Jeffrey L. Bewkes</td><td>Jessica P. Einhorn</td></tr> <tr> <td>Stephen F. Bollenbach</td><td>Paul D. Wachter</td></tr> <tr> <td>Robert C. Clark</td><td>Deborah C. Wright</td></tr> <tr> <td>Mathias Döpfner</td><td></td></tr> </table>	James L. Barksdale	Fred Hassan	William P. Barr	Kenneth J. Novack	Jeffrey L. Bewkes	Jessica P. Einhorn	Stephen F. Bollenbach	Paul D. Wachter	Robert C. Clark	Deborah C. Wright	Mathias Döpfner		<p><b>FOR each nominee</b></p> <p>Pages 10 to 20</p>
James L. Barksdale	Fred Hassan												
William P. Barr	Kenneth J. Novack												
Jeffrey L. Bewkes	Jessica P. Einhorn												
Stephen F. Bollenbach	Paul D. Wachter												
Robert C. Clark	Deborah C. Wright												
Mathias Döpfner													
<p>Ratification of the appointment of the firm Ernst &amp; Young LLP as independent auditors for 2013</p>	<p><b>FOR</b></p> <p>Page 21</p>												
<p>Advisory vote to approve named executive officer compensation</p>	<p><b>FOR</b></p> <p>Page 22</p>												
<p>Approval of the Time Warner Inc. 2013 Stock Incentive Plan</p>	<p><b>FOR</b></p> <p>Pages 23 to 31</p>												

## **Table of Contents**

### **2012 Company Performance**

#### ***2012 Financial Performance Highlights<sup>1</sup>***

Adjusted Diluted Net Income per Common Share ( Adjusted EPS ) grew 13.5% to a record \$3.28 for 2012 – the fourth straight year of double-digit growth in Adjusted EPS. Diluted Income per Common Share increased from \$2.71 for 2011 to \$3.09 for 2012.

#### **13.5% Growth**

Adjusted Operating Income increased 4.5% from 2011, reaching a record \$6.1 billion. At the same time, Operating Income rose 1.9% from \$5.8 billion in 2011 to \$5.9 billion in 2012.

#### **4.5% Growth**

The Company delivered strong Free Cash Flow, increasing 8.6% from 2011, which was due in part to the growth in Adjusted Operating Income. In 2012, Cash Provided by Operations from Continuing Operations reached \$3.5 billion, up from \$3.4 billion in 2011.

#### **8.6% Growth**

<sup>1</sup> See Annex A to this Proxy Statement for definitions of the non-GAAP financial measures discussed in this summary (*i.e.*, Adjusted EPS, Adjusted Operating Income, Free Cash Flow and return on invested capital excluding the impact of certain purchase price adjustments) and a reconciliation of each such non-GAAP financial measure to the most directly comparable financial measure calculated and presented in accordance with GAAP.

**2** | Time Warner Inc. Notice of 2013 Annual Meeting of Stockholders and Proxy Statement

## **Table of Contents**

The Company's one-year total stockholder return (TSR) was 35.8% compared to a weighted average TSR of 16.0% for the S&P 500 Index, and the price of the Company's Common Stock increased 32.3% during 2012. The Company also delivered a return on invested capital (excluding the impact of purchase price adjustments from a merger in 2001 and a significant corporate structure transaction in 2003) of 19% in 2012. See footnote 5 of the Reconciliation of Return on Invested Capital in Annex A for more information regarding the merger and the corporate structure transaction.

### ***2012 Business Highlights Significant Progress on Key Long-Term Strategic Objectives***

***Increasing investments in content.*** In 2012, the Company continued to invest aggressively to create, acquire and distribute compelling content, which resulted in continued leadership in television ratings and box office performance, as well as critical acclaim.

***Advancing the digital transition of its businesses with Content Everywhere strategy.*** In 2012, the Company continued to develop and accelerate digital business models, such as TV Everywhere, UltraViolet, Disc-to-Digital and tablet editions of magazines, and entered into multi-year licensing agreements with subscription video-on-demand services.

***Expanding the Company's international businesses.*** During 2012, the Company continued to expand its international businesses, launching new networks and premium pay television services in Europe and Asia.

***Improving the Company's operating and capital efficiency.*** The Company reduced total operating expenses in 2012 while continuing to invest aggressively in content, and returned \$4.3 billion to stockholders in the form of increased dividends and share repurchases. For additional information regarding the Company's 2012 business achievements, see page 50.

### **2012 Compensation**

The Compensation and Human Development Committee (the Compensation Committee) is guided by its pay-for-performance philosophy and made compensation decisions regarding the Company's named executive officers (NEOs) that reflect the Company's strong 2012 financial performance and progress made on its key long-term strategic objectives under the effective leadership of the Company's executive officers. The 2012 total direct compensation of Jeffrey Bewkes, the Company's Chairman and CEO, was flat compared to the prior year reflecting the challenging bonus targets set for 2012. The components of Mr. Bewkes' compensation were:

Base salary: \$2.0 million, as set out in his employment agreement.

Performance-based cash bonus: The amount awarded to Mr. Bewkes (\$13.6 million) reflected both the Company's strong 2012 performance and the Compensation Committee's review of Mr. Bewkes' individual performance, in both cases against goals set at the beginning of the year.

Long-term incentive compensation: Mr. Bewkes was awarded performance stock units (PSUs), restricted stock units (RSUs) and stock options with an aggregate grant date fair value of \$9.9 million. The value that Mr. Bewkes will actually realize from these awards will be based on the extent to which the Company is able to deliver long-term financial results and stock price growth.

*Additional information regarding the executive compensation program and 2012 compensation is discussed in the Compensation Discussion and Analysis section of this Proxy Statement, beginning on page 49.*



## **Table of Contents**

### **New Employment Agreement for Chairman & CEO**

In 2012, in anticipation of the expiration of Mr. Bewkes' 2008 employment agreement on December 31, 2012, the Compensation Committee determined that it would be in the best interest of the Company to extend the term of Mr. Bewkes' employment and retain his leadership for an additional five years. This decision was driven by the Company's financial and operating performance since January 2008, when Mr. Bewkes became the CEO of the Company. **During this period and under Mr. Bewkes' leadership, the Company has delivered very strong financial results, developed, implemented and executed a new content-focused strategy and significantly increased stockholder returns.**

### ***Financial Performance Highlights during Mr. Bewkes' Tenure as CEO***

Adjusted EPS has increased at a compound annual growth rate ( CAGR ) of 15.6% since December 2007.

Adjusted Operating Income has increased at a CAGR of 7.0% since December 2007.

## **Table of Contents**

The Company has delivered stockholder returns during the most recent one-, three- and five-year periods that significantly exceeded the weighted average TSR of the S&P 500 during the same periods.

The following table shows the Company's five-year TSR compared to the five-year TSR for the S&P 500 Index. The table assumes that \$100 was invested in the Company's Common Stock and the S&P 500 Index on December 31, 2007.

### ***Business Highlights during Mr. Bewkes' Tenure as CEO***

Under Mr. Bewkes' leadership, the Company has pursued a content-focused strategy designed to provide sustainable, attractive growth and returns for the Company's stockholders. During his tenure, the Company has made significant and consistent progress in executing this strategy, including:

***Repositioning the Company to focus on the creation, packaging and distribution of compelling branded content globally.*** As part of this strategy, the Company successfully spun-off Time Warner Cable Inc. and AOL Inc. to stockholders in 2009. Narrowing the Company's focus provided better alignment among its divisions and allowed it to dedicate its resources to the accomplishment of its key long-term strategic objectives.

***Creating compelling branded content.*** The Company significantly increased its investment in programming and production, which resulted in an expanded slate of original programming on the Company's networks and premium pay television services, the acquisition and extension of marquee sports programming and the development of record-breaking and award-winning film franchises. In particular, the increased programming investment strengthened the competitive position of the Company's networks and premium pay television services and laid the foundation for continued growth in subscription revenues in the coming years.

## **Table of Contents**

***Leading the development of new digital business models through its Content Everywhere strategy.*** The Company has led the industry in the development and adoption of new business models for the distribution of content that enable consumers to access content on any device and at any time. For example, Turner and HBO were instrumental in developing the technology and business rules to make TV Everywhere a success and were the first among their peers to widely offer these rights to their distribution partners. Likewise, Warner Bros. was a leading force behind the launch of UltraViolet, the new multiplatform standard for the home entertainment industry. In addition, Time Inc. was the first major publisher to offer subscribers to its U.S. magazines full access to those titles in print and on tablets.

***Expanding international operations.*** The Company has executed an international strategy that has focused on achieving scale in industry segments and territories with attractive growth prospects, including in Latin America, Asia and Central and Eastern Europe. The successful execution of its strategy resulted in international revenue growth despite a stronger U.S. dollar. At the same time, the Company focused on rationalizing its networks' cost structure in territories where it does not have a scale position.

***Managing capital to provide sustainable, attractive growth and stockholder returns.*** From 2008 through 2012, the Company generated strong Free Cash Flow, increased its quarterly dividend three times (in each of 2010, 2011 and 2012) and repurchased more than \$11 billion in Common Stock, returning an aggregate of \$16.2 billion to stockholders from 2008 to 2012.

### ***Factors Considered by the Compensation Committee in Setting Compensation Level and Structure***

The Compensation Committee's charter outlines the following factors for the Committee to take into consideration when determining compensation for the CEO.

Compensation previously provided to the CEO.

The Company's overall performance and stockholder return.

The achievement of specific performance objectives that the Committee establishes on an annual basis.

The value of compensation provided to individuals in similar positions at comparable companies (*i.e.*, one or more peer groups).

The measures taken by the Company to enhance its corporate compliance programs and to improve its systems of internal controls.

The views expressed by stockholders on executive compensation matters.

In determining the level and structure for Mr. Bewkes' compensation under his new employment agreement, the Compensation Committee considered all the factors specified in the Committee's charter and noted the following:

***Prior Compensation Level.*** The target compensation level determined for Mr. Bewkes was driven by the amount of his compensation as of 2012, which had not been increased since 2010, and the Compensation Committee's desire to recognize the Company's very strong performance since Mr. Bewkes became CEO.

***Peer Compensation Levels.*** While the Compensation Committee was mindful of the compensation provided to CEOs at comparable companies, it also recognized that some of the Company's entertainment industry peers are effectively controlled companies. Accordingly, and consistent with the Compensation Committee's practice, the Committee did not target an increase in Mr. Bewkes' compensation on a specific

## Edgar Filing: TIME WARNER INC. - Form DEF 14A

percentile of compensation for CEOs at the Company's entertainment industry peers.

***Stockholder Alignment and Views.*** The Committee endeavored to provide a compensation structure that will provide effective incentives for Mr. Bewkes to continue to drive future long-term stockholder value and returns with a significant portion of his compensation tied to the Company's long-term financial and stock price performance. In addition, the Committee considered the views expressed by some of the Company's stockholders, including that (i) more of Mr. Bewkes' compensation should be focused on long-term performance, (ii) gross-ups to cover excise taxes are considered a poor pay practice, and (iii) large up-front equity award grants can create the potential for significant windfalls for executives.

6 | Time Warner Inc. Notice of 2013 Annual Meeting of Stockholders and Proxy Statement



## **Table of Contents**

Following the Compensation Committee's evaluation, the Committee developed the terms of a new agreement that (i) provides Mr. Bewkes with a compensation increase in 2013 that the Committee believes is appropriate in light of his historical and expected future performance and (ii) is structured to reflect the views of the Company's stockholders and leading governance practices. The Company and Mr. Bewkes entered into a new five-year employment agreement in November 2012 that became effective January 1, 2013.

### ***Key Employment Agreement Terms***

Base salary and target annual bonus have not changed from 2010 levels.

Increase in target compensation consists entirely of increase in the target value of annual long-term incentives, with future long-term incentive awards consisting solely of stock options and PSUs (*i.e.*, no time-vested RSUs).

No up-front equity grant.

Eliminated excise tax gross-up upon a change in control of the Company.

### **Stockholder Engagement**

The Company has long-standing practice of actively engaging with its stockholders on executive compensation and corporate governance matters, generally both before and after its annual meeting of stockholders. For example, before and after each of the 2011 and 2012 Annual Meetings of Stockholders, the Company spoke with stockholders representing 40-55% of the Company's outstanding Common Stock regarding their views on the advisory vote to approve NEO compensation and other compensation and governance matters.

At the 2011 Annual Meeting, 77.45% of the votes cast were in favor of the advisory vote to approve NEO compensation and, at the 2012 Annual Meeting, 79.32% were in favor of the advisory vote to approve NEO compensation. The Company placed a particular focus on seeking to speak with stockholders who voted against the proposals.

The discussions with stockholders have helped to inform the Compensation Committee's deliberations and decisions regarding (i) the changes to the performance measures for the PSUs implemented in January 2012; (ii) the new compensation structure for the Company's Chairman and CEO under the employment agreement entered into in November 2012, including an increased emphasis on long-term, performance-based compensation; and (iii) the 2013 Stock Incentive Plan being presented for stockholder approval at the 2013 Annual Meeting. For more information regarding the Company's engagement with its stockholders, see pages 54 to 55 in the Compensation Discussion and Analysis section.

### **Approval of the Time Warner Inc. 2013 Stock Incentive Plan**

The Company is asking its stockholders to approve the Time Warner Inc. 2013 Stock Incentive Plan (the "2013 Plan"). The purpose of the 2013 Plan is to aid the Company in recruiting and retaining employees, directors and advisors and to provide them with incentives that are aligned with the interests of the Company's stockholders through equity grants that increase in value when the price of the Common Stock increases.

The 2013 Plan will replace the Time Warner Inc. 2010 Stock Incentive Plan (the "2010 Plan"), which is the Company's only active equity plan. If the 2013 Plan is approved by stockholders, the plan will become effective on May 23, 2013, and the Company will terminate the 2010 Plan in the third quarter of 2013. Any equity awards by the Company after May 23, 2013 will continue to be made under the 2010 Plan until it is terminated, and then awards will be made under the 2013 Plan. The Company expects to grant a limited number of awards under the 2010 Plan after May 23, 2013 and prior to its termination. The number of shares represented by awards made during this period will be treated by the Company as reducing the total number of shares available under the 2013 Plan.

The Board recommends that the Company's stockholders vote to approve the 2013 Plan for the following main reasons:

**Stockholder approval of the 2013 Plan will enable the Company to grant awards using fewer shares.** As of March 15, 2013, there were approximately 41.6 million shares available for equity grants out of the 70 million shares authorized under the 2010 Plan. However, of the shares available for equity grants, only approximately 13.1 million shares were available for grants of full-value awards (*i.e.*, RSUs and PSUs). In recent years, the Compensation

## **Table of Contents**

Committee has decided to grant RSUs rather than stock options to employees who receive equity awards other than the Company's most senior executives. The Compensation Committee's decision to grant more RSUs and fewer options was based on a desire to continue providing market-competitive equity-based compensation and to use fewer shares.

**Adoption of the 2013 Plan will not cause incremental dilution to stockholders.** The number of shares authorized under the 2013 Plan is less than the number of shares currently available for grants of awards under the 2010 Plan, and the 2013 Plan has the same 1.5% annual cap on awards (as described below), so the adoption of the 2013 Plan by itself will not result in any incremental dilution to the Company's stockholders. Although the Company's share repurchase program increases the dilutive impact of equity awards by reducing the number of outstanding shares of Common Stock, the 1.5% annual cap on awards mitigates that consequence and, over time, the share repurchase program results in fewer shares being available for awards granted under the 2013 Plan during any given year. For information regarding the Company's share repurchases from 2010 through 2012 and current share repurchases authorization, see page 25.

**The Company has been managing its burn rate and overhang diligently and effectively.**

- i **Burn Rate.** The Company's burn rate has declined over the past three years, and its burn rate in 2012 was substantially less than the 2010 Plan's annual burn rate cap of 1.5% of the total outstanding Common Stock at December 31 of the preceding year, even as the number of outstanding shares has declined due to the Company's share repurchase program. The 2013 Plan will have the same 1.5% annual cap on awards, which limits the potential dilutive impact of the Company's share repurchases on awards granted under the 2013 Plan.
- i **Overhang.** As of March 15, 2013, the total number of the Company's outstanding equity awards (assuming a payout of PSUs at target), or overhang, was 62.7 million, which represents 6.7% of the Company's outstanding shares of Common Stock as of that date.