

Digital Music Group, Inc.  
Form 8-K  
May 16, 2007

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 8-K**

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**CURRENT REPORT**

Pursuant to Section 13 or 15(d) of The Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 14, 2007

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**DIGITAL MUSIC GROUP, INC.**

(Exact name of registrant specified in its charter)

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**Delaware**  
(State or other jurisdiction

of incorporation)

**000-51761**  
(Commission File Number)

**20-3365526**  
(I.R.S. Employer

Identification No.)

**2151 River Plaza Drive, Suite 200, Sacramento, California**  
(Address of principal executive offices)

**95833**  
(Zip Code)

Registrant's telephone, including area code: (916) 239-6010

(Former name and former address, if changed since last report)

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

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- .. Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - .. Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - .. Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - .. Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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**Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.**

On May 14, 2007, the Compensation Committee of Digital Music Group, Inc. (the Company) approved the Management Incentive Bonus Plan (the Plan) for the year ending December 31, 2007.

The Plan functions as follows:

*Participants*

Each corporate officer of the Company, presently consisting of Mitchell Koulouris, President and Chief Executive Officer, Tuhin Roy, Chief Strategy Officer, and Karen Davis, Chief Financial Officer and Corporate Secretary, is a participant in the Plan, and has an annual target bonus. Participants may be added during the year, if approved by the Compensation Committee, on a pro rata basis; however, no additions may be made during the final five months of 2007. Only those participants who are employed on the last day of the fiscal year shall be eligible to receive a bonus, unless there is a contractual obligation otherwise. Also, participants who voluntarily resign from the Company prior to the annual earnings announcement for 2007 shall forfeit all 2007 bonuses.

*Administration*

The Plan will be administered by the Compensation Committee of the Company. The Compensation Committee retains the right to decide all matters of interpretation with respect to the Plan. Decisions of the Compensation Committee shall be final and binding. The Compensation Committee also retains the right to amend, clarify or redefine, prospectively or retroactively, any and all terms of the Plan by a majority vote of its members.

*Performance Criteria*

The following three performance criteria will be used to calculate bonuses under the Plan for 2007:

1. Revenue as reported on a GAAP-basis;
2. Net income (loss) reported on a GAAP-basis; and
3. Achievement of corporate objectives.

*Performance Measurement*

For the first two performance criteria above, specific performance metrics will be used to determine the achievement of bonuses. The third performance criteria is discretionary in nature and will be based on an assessment by the Compensation Committee of qualitative factors including, but not limited to: execution of key strategic objectives; maintaining value and liquidity in DMGI's stock price; attracting and retaining high-caliber employees in all departments; successfully integrating the operations of DRA and DMGI as demonstrated by the development and implementation of the Unified Data Model system by the third quarter of 2007; expanding the geographic and various content network of channel partners; maintaining good relationships with channel partners, content owners, artists and other important third parties; penetrating the mobile channel and implementing the DMGI Network for video content; acquiring quality content; efficiently processing new content, and achieving preliminary performance consistent with the acquisition economics; maintaining an effective investor relations program; maintaining effective systems and controls over the business and financial reporting in compliance with Sarbanes Oxley Section 404; and maintaining open and candid communications with the Board of Directors.

Each performance criteria above is given a weighting, and they each add up to 100%. A lower and upper boundary is also set on each side of the performance metric. In the event the lower boundary is not met, there will be no target bonus paid on that component of the bonus. In the event the upper boundary is met, the target bonus is paid out at 100%. Bonus payouts for performance between the boundaries are based on a calculation.

*Target Bonuses and Calculation*

The target bonus for each corporate officer is established as 15 / 50 / 35 applied on a percentage basis to performance criteria one through three above, respectively.

The total bonus that can be earned under the Plan by each corporate officer ranges from zero to a maximum of 100% of each officer's annual base salary, currently \$150,000 for Mr. Koulouris, \$130,000 for Mr. Roy, and \$130,000 for Ms. Davis.

The individual bonuses will be determined by the Compensation Committee by multiplying the annual base salary amount subject to bonus for each corporate officer by the sum of the quotients obtained by multiplying the applicable performance metrics by the target bonus weighting percentages for each performance criteria set forth above.

*Payment of Bonuses*

Bonuses under the Plan will be paid to the corporate officers as soon as practical after the release of the Company's annual results for 2007 and in no event later than April 15, 2008.

**Item 9.01 Financial Statements and Exhibits.**

(d) Exhibits.

10.1 Digital Music Group, Inc. ( DMGI ) Management Incentive Bonus Plan (the Plan ) for the Year Ending December 31, 2007.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DIGITAL MUSIC GROUP, INC.

Date: May 16, 2007

By: /s/ Karen Davis  
Name: Karen Davis  
Title: Chief Financial Officer

**EXHIBIT INDEX**

| <b>Exhibit<br/>Number</b> | <b>Document Description</b>  |
|---------------------------|--|
| 10.1                      | Digital Music Group, Inc. ( DMGI ) Management Incentive Bonus Plan (the Plan ) for the Year Ending December 31, 2007 |