Warner Music Group Corp.
Form 10-Q
May 05, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 001-32502

Warner Music Group Corp.

(Exact name of Registrant as specified in its charter)

Delaware	**13-4271875**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

75 Rockefeller Plaza

New York, NY 10019

(Address of principal executive offices)

(212) 275-2000

(Registrant s telephone number, including area code)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer or an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ¨ No x

As of May 1, 2006, the number of shares of the Registrant s common stock, par value $0.001 per share, outstanding was 148,546,120.787.

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WARNER MUSIC GROUP CORP.

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ITEM 1. FINANCIAL STATEMENTS

Warner Music Group Corp.

Consolidated Balance Sheets

	March 31, 2006	September 30, 2005
	(unaudited)	(audited)
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$ 359	$ 288
Short-term investments	61	
Accounts receivable, less allowances of $230 and $218 million	530	637
Inventories	44	52
Royalty advances expected to be recouped within one year	196	190
Deferred tax assets	32	36
Other current assets	56	39
Total current assets	1,278	1,242
Royalty advances expected to be recouped after one year	196	190
Investments	24	21
Property, plant and equipment, net	147	157
Goodwill	876	869
Intangible assets subject to amortization, net	1,737	1,815
Intangible assets not subject to amortization	100	100
Other assets	106	104
Total assets	$ 4,464	$ 4,498
Liabilities and Shareholders Equity		
Current liabilities:		
Accounts payable	$ 211	$ 247
Accrued royalties	1,088	1,057
Taxes and other withholdings	43	23
Current portion of long-term debt	17	17
Dividends payable	20	
Other current liabilities	327	404
Total current liabilities	1,706	1,748
Long-term debt	2,226	2,229
Dividends payable	6	5
Deferred tax liabilities, net	192	201
Other noncurrent liabilities	225	226
Total liabilities	4,355	4,409

Commitments and Contingencies (See Note 9)		
Shareholders equity:		
Common stock ($0.001 par value; 500,000,000 shares authorized; 148,496,538 and 148,455,313 shares issued and outstanding)		
Additional paid-in capital	556	548
Accumulated deficit	(475)	(480)
Accumulated other comprehensive income, net	28	21
Total shareholders equity	109	89
Total liabilities and shareholders equity	$ 4,464	$ 4,498

See accompanying notes.

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Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

Three Months Ended March 31, 2006 and 2005

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005
	(in millions, except per share amounts)	
Revenues (b)	$ 796	$ 767
Costs and expenses:		
Cost of revenues (a)	(409)	(400)
Selling, general and administrative expenses (a) (b)	(294)	(293)
Amortization of intangible assets	(48)	(47)
Total costs and expenses	(751)	(740)
Operating income	45	27
Interest expense, net	(45)	(52)
Equity in the gains of equity-method investees, net	1	
Unrealized gain on warrants		39
Other income, net	2	
Income before income taxes	3	14
Income tax expense	(10)	(10)
Net (loss) income	$ (7)	$ 4
Net (loss) income per common share:		
Basic	$ (0.05)	$ 0.04
Diluted	$ (0.05)	$ (0.28)
Weighted average common shares:		
Basic	141.9	107.7
Diluted	141.9	123.5

(a) Includes depreciation expense of	$ (11)	$ (14)
(b) Includes the following expenses resulting from transactions with related companies:		
Revenues	4	
Selling, general and administrative expense	(3)	(2)

See accompanying notes.

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Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

Six Months Ended March 31, 2006 and 2005

	Six Months Ended March 31, 2006	Six Months Ended March 31, 2005
	(in millions, except per share amounts)	
Revenues (b)	$ 1,840	$ 1,855
Costs and expenses:		
Cost of revenues (a)	(939)	(981)
Selling, general and administrative expenses (a) (b)	(617)	(624)
Amortization of intangible assets	(95)	(93)
Total costs and expenses	(1,651)	(1,698)
Operating income	189	157
Interest expense, net (b)	(90)	(90)
Equity in the gains (losses) of equity-method investees, net	1	(1)
Unrealized gain on warrants		17
Minority interest expense (b)		(5)
Other income, net	2	4
Income before income taxes	102	82
Income tax expense	(40)	(42)
Net income	$ 62	$ 40
Net income per common share:		
Basic	$ 0.44	$ 0.37
Diluted	$ 0.41	$ 0.19
Weighted average common shares:		
Basic	141.7	107.6
Diluted	150.6	119.6

(a) Includes depreciation expense of	$ (22)	$ (28)
(b) Includes the following expenses resulting from transactions with related companies:		
Revenues	4	
Selling, general and administrative expense	(8)	(5)
Interest expense		(1)
Minority interest expense		(5)

See accompanying notes.

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Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

Six Months Ended March 31, 2006 and 2005

	Six Months Ended March 31, 2006	Six Months Ended March 31, 2005
	(in millions)	
Cash flows from operating activities		
Net income	$ 62	$ 40
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	117	121
Non-cash interest expense	26	30
Non-cash, stock-based compensation expense	8	9
Deferred taxes	(2)	2
Equity in the (gains) losses of equity-method investees, including distributions	(1)	1
Unrealized gain on warrants		(17)
Minority interest expense		5
Changes in operating assets and liabilities:		
Accounts receivable	108	103
Inventories	8	1
Royalty advances	(29)	9
Accounts payable and accrued liabilities	(66)	(22)
Other balance sheet changes	(26)	10
Net cash provided by operating activities	205	292
Cash flows from investing activities		
Investments and acquisitions	(18)	(48)
Investments in short-term investments	(61)	
Investment proceeds		1
Capital expenditures	(12)	(14)
Net cash used in investing activities	(91)	(61)
Cash flows from financing activities		
Borrowings		696
Financing costs of borrowings		(17)
Quarterly debt repayments	(8)	(6)
Proceeds from the issuance of restricted shares		1
Repurchase of subsidiary preferred stock		(209)
Dividends and returns of capital paid	(37)	(807)
Net cash used in financing activities	(45)	(342)
Effect of foreign currency exchange rate changes on cash	2	3
Net increase (decrease) in cash and equivalents	71	(108)
Cash and equivalents at beginning of period	288	555

Cash and equivalents at end of period	$ 359	$ 447

See accompanying notes.

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Warner Music Group Corp.

Consolidated Statement of Shareholders Equity (Unaudited)

Six Months Ended March 31, 2006

	Common Stock		Additional Paid-in Capital	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Shareholders Equity
	Shares	Value				
	(in millions, except number of common shares)					
Balance at September 30, 2005	148,455,313	$	$ 548	$ (480)	$ 21	$ 89
Comprehensive income:						
Net income				62		62
Foreign currency translation adjustment					(2)	(2)
Deferred gains on derivative financial instruments					9	9
Total comprehensive income				62	7	69
Dividends				(57)		(57)
Issuance of stock options and restricted shares of common stock, net	41,225		8			8
Balance at March 31, 2006	148,496,538	$	$ 556	$ (475)	$ 28	$ 109

See accompanying notes.

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Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited)

1. Description of Business

Warner Music Group Corp. (the Company or Parent) was formed by a private equity consortium of Investors (the Investor Group) on November 21, 2003. The Company is the direct parent of WMG Holdings Corp. (Holdings), which is the direct parent of WMG Acquisition Corp. (Acquisition Corp.). Acquisition Corp. is one of the world s major music companies and the successor to the interests of the recorded music and music publishing businesses of Time Warner Inc. (Time Warner). Effective March 1, 2004, Acquisition Corp. acquired such interests from Time Warner for approximately $2.6 billion (the Acquisition). On May 10, 2005, the Company sold 32,600,000 shares of its common stock in an initial public offering (the Initial Common Stock Offering) and became a public company.

The Company classifies its business interests into two fundamental areas: recorded music and music publishing. A brief description of those operations is presented below.

The Company s business is seasonal. Therefore, operating results for the three and six month periods ended March 31, 2006 are not necessarily indicative of the results that may be expected for fiscal 2006.

Recorded Music Operations

The Company s recorded music operations consist of the discovery and development of artists and the related marketing and distribution of recorded music produced by such artists. In addition to the more traditional methods of discovering and developing artists, the Company has implemented new initiatives to identify and nurture artists earlier in the development process and reduce development costs by leveraging its independent distribution network. The Company refers to these new business models as incubator initiatives. Asylum and East West are the current recorded music incubator labels. In addition, the Company launched Cordless Recordings an e-label that gives artists the ability to come to market with one or several songs in digital formats without the need to create an entire album. Asylum, East West and Cordless Recordings make up the Company s Independent Label Group (ILG). The Company has also entered into strategic ventures with other record labels.

The Company s recorded music operations also include a catalog division called Rhino Entertainment (Rhino). Rhino specializes in marketing the Company s music catalog through compilations and reissuances of previously released music and video titles, as well as in the licensing of tracks to/from third parties for various uses, including film and television soundtracks.

The Company s principal recorded music distribution operations include Warner-Elektra-Atlantic Corporation (WEA Corp.), which primarily distributes the Company s music products to retailers and wholesale distributors in the United States; a 90% interest in Alternative Distribution Alliance (ADA), a distribution company which primarily distributes the products of independent record labels to retailers and wholesale distributors; various distribution centers and ventures operated internationally; and an 80% interest in Word Entertainment, whose distribution operations specialize in the distribution of music products in the Christian retail marketplace.

The Company has signed a definitive agreement to acquire Ryko Corporation, a leading independent, integrated music and entertainment company. The acquisition is expected to close during the third quarter of fiscal 2006. See Note 3.

The Company plays an integral role in virtually all aspects of the music value chain from discovering and developing talent, to producing albums and promoting artists and their product. After an artist has entered into a contract with one of the Company s record labels, a master recording of the artist s music is created. The recording is then replicated for sale to consumers primarily in CD and digital formats. In the U.S., WEA Corp.

Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited) (Continued)

and ADA market, sell and deliver products, either directly or through sub-distributors and wholesalers, to thousands of record stores, mass merchants and other retailers throughout the country. Recorded music products are also sold in physical form to Internet physical retailers. In addition, the Internet and wireless networks have become increasingly important sales channels for records in non-physical forms.

In the U.S., the Company s recorded music operations are conducted principally through its major record labels Warner Bros. Records and The Atlantic Records Group. In markets outside the U.S., recorded music activities are conducted through the Warner Music International (WMI) division and its various subsidiaries, affiliates and non-affiliated licensees.

Music Publishing Operations

The Company s music publishing business is focused on the exploitation of songs as intellectual property. In return for promoting, placing, marketing and administering the creative output of a songwriter, or engaging in those activities for other rightsholders, the Company s music publishing business garners a share of the revenues generated. In addition to the more traditional methods, the Company has implemented new initiatives to promote and develop emerging songwriters. For example, the Company s music publishing business has its own incubator label, Perfect Game Recording Co.

Warner/Chappell is the Company s global music publishing company, headquartered in Los Angeles, with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. The Company owns or controls rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. The music publishing library includes many standard titles that span multiple music genres. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd. and Hallmark Entertainment.

The Company also previously owned Warner Bros. Publications (WBP), which printed and distributed a broad selection of sheet music, books and educational materials, orchestrations, folios, personality books, and arrangements from the catalogs of Warner/Chappell and other music publishers. On May 31, 2005, the Company sold WBP to Alfred Publishing. See Note 3.

Music publishing revenues are derived from four main sources:

Mechanical: the licensor receives royalties with respect to compositions embodied in recordings sold in any format or configuration, including singles, albums, CDs, digital downloads and mobile phone ringtones.

Performance: the licensor receives royalties when the composition is performed publicly (*e.g.*, broadcast radio and television, movie theater, concert, nightclub or Internet and wireless streaming).

Synchronization: the licensor receives royalties or fees for the right to use the composition in combination with visual images (*e.g.*, in films, television commercials and programs and videogames).

Other: the licensor receives royalties from other uses such as stage productions.

2. Basis of Presentation

Interim Financial Statements

The accompanying consolidated financial statements are unaudited but, in the opinion of management, contain all the adjustments (consisting of those of a normal recurring nature) considered necessary to present fairly the financial position and the results of operations and cash flows for the periods presented in conformity

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Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited) (Continued)

with accounting principles generally accepted in the U.S. (U.S. GAAP) applicable to interim periods. The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company included in its Annual Report on Form 10-K (Registration No. 001-32502).

Recapitalization

As discussed above, on May 10, 2005, the Company sold 32,600,000 shares of its common stock in the Initial Common Stock Offering. In connection with the Initial Common Stock Offering, the Company (i) converted all its formerly outstanding shares of Class L Common Stock into shares of Class A Common Stock, (ii) renamed all of its formerly outstanding shares of Class A Common Stock as common stock , which had the effect of eliminating from the Company s authorized capital stock the Class L Common Stock and Class A Common Stock and (iii) authorized an approximately 1,139 to 1 split of the Company s common stock, (collectively, the Recapitalization).

Accordingly, historical financial statements have been restated to reflect the Recapitalization for all periods occurring after the Acquisition that was effective as of March 1, 2004. Such restatement primarily related to common stock and equivalent shares information, net income per common share computations and stock-based compensation disclosures.

Reclassifications

Certain reclassifications have been made to the prior period s financial information in order to conform to the current period s presentation.

Basis of Consolidation

The consolidated accounts include 100% of the assets, liabilities, revenues, expenses, income, losses and cash flows of the Company and all entities in which the Company has a controlling voting interest and/or variable interest entities required to be consolidated in accordance with U.S. GAAP. Significant intercompany balances and transactions have been eliminated in consolidation.

Short-term Investments

The Company considers all investments with maturities greater than three months, but less than one year, when purchased to be short-term investments. Short-term investments include high-quality, investment grade securities such as taxable auction rate securities as well as commercial paper and corporate bonds. Auction rate securities are classified as available for sale and are carried at fair value. Unrealized gains and losses on such securities are included in accumulated other comprehensive income (loss). Commercial paper and corporate bonds that the Company has both the positive intent and ability to hold to maturity are carried at cost and classified as held to maturity.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123(R), Share-Based Payment, (FAS 123(R)) which revises FASB Statement No. 123, Accounting for Stock-Based Compensation (FAS 123). FAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense based on their fair value. Effective March 1, 2004, in connection with the Acquisition, the Company adopted the fair value recognition provisions of FAS 123 to account for all stock-based compensation plans adopted subsequent to the Acquisition. Under the fair value recognition provisions of FAS 123, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period. The Company expenses deferred stock- based compensation on an accelerated basis over the vesting period of the stock award. Effective October 1, 2005, the Company adopted FAS 123(R) using the modified prospective method. There was no impact to the Company s results of operations or financial position as a result of the adoption of FAS 123(R).

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Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited) (Continued)

Comprehensive (Loss) Income

Comprehensive (loss) income consists of net (loss) income and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income. For the Company, the components of other comprehensive income primarily consist of foreign currency translation gains and losses and deferred gains and losses on financial instruments designated as hedges under FASB Statement No. 133, Accounting for Derivative and Hedging Activities , which include interest-rate swaps and foreign exchange contracts. The following summary sets forth the components of comprehensive (loss) income, net of related taxes, for the three and six months ended March 31, 2006 and 2005 (in millions):

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005	Six Months Ended March 31, 2006	Six Months Ended March 31, 2005
Net (loss) income	$ (7)	$ 4	$ 62	$ 40
Foreign currency translation gains (losses)		13	(2)	(12)
Derivative financial instruments gains	2	7	9	10
Comprehensive (loss) income	$ (5)	$ 24	$ 69	$ 38

Net Income (Loss) Per Common Share

The Company computes net income (loss) per common share in accordance with FASB Statement No. 128, Earnings per Share (FAS 128). Under the provisions of FAS 128, basic net income (loss) per common share is computed by dividing the net income (loss) applicable to common shares after preferred dividend requirements, if any, by the weighted average of common shares outstanding during the period. Diluted net income (loss) per common share adjusts basic net income (loss) per common share for the effects of stock options, warrants and other potentially dilutive financial instruments, only in the periods in which such effect is dilutive.

The following table sets forth the computation of basic and diluted net income (loss) per common share (in millions, except per share amounts):

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005	Six Months Ended March 31, 2006	Six Months Ended March 31, 2005
Basic and diluted net income (loss) per common share:				

Numerator:				
Net income (loss) for basic calculation	$ (7)	$ 4	$ 62	$ 40
Less: Unrealized gain on warrants		(39)		(17)
Net income (loss) for diluted calculation	$ (7)	$ (35)	$ 62	$ 23
Denominator:				
Weighted average common shares outstanding for basic calculation (a)	141.9	107.7	141.7	107.6
Weighted average common outstanding shares for diluted calculation	141.9	123.5	150.6	119.6
Net income (loss) per common share basic	$ (0.05)	$ 0.04	$ 0.44	$ 0.37
Net income (loss) per common share diluted	$ (0.05)	$ (0.28)	$ 0.41	$ 0.19

(a) The denominator excludes the effect of unvested common shares subject to repurchase or cancellation.

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Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited) (Continued)

The calculation of diluted net income (loss) per share for each of the periods includes the effects of the assumed exercise of any outstanding stock options or warrants, and the assumed vesting of shares of restricted stock where dilutive. The assumed exercise of outstanding stock options and the assumed vesting of restricted stock represent the following dilutive effect (in millions of shares):

	Three Months Ended March 31, 2006	Three Months Ended March 31, 2005	Six Months Ended March 31, 2006	Six Months Ended March 31, 2005
Stock options	2.7	3.2	2.6	2.7
Restricted stock	6.2	6.9	6.3	6.8
Warrants		5.7		2.5
	8.9	15.8	8.9	12.0

The Company recognized a net loss for the three months ended March 31, 2006. Therefore, the effects from the assumed exercise of any outstanding stock options or warrants, or the assumed vesting of shares of restricted stock, during such period would be antidilutive. Accordingly, they have not been included in the presentation of diluted net income (loss) per share for the three months ended March 31, 2006.

See Note 19 in the Company s audited consolidated financial statements for the year ended September 30, 2005 for a summary of the terms of the warrants that were issued to Time Warner in connection with the Acquisition. The Company repurchased the warrants from Time Warner in May 2005 for approximately $138 million.

3. Significant Acquisitions and Dispositions

Acquisition of Ryko Corporation

In March 2006, the Company entered into a definitive agreement to acquire Ryko Corporation (Ryko), a leading independent, integrated music and entertainment company, for approximately $67.5 million, subject to post-closing purchase price adjustments. Ryko consists of a recorded music label, Rykodisc, which focuses on a range of contemporary music and comedy releases and numerous film and television soundtracks and Ryko Distribution, which distributes music and DVD releases from Rykodisc as well as from independent third-party record and video labels. Additionally, Ryko owns a catalog of more than 1,000 titles of rock, folk, jazz, world, blues and alternative albums including Restless Records catalog of punk, new wave and soundtrack recordings. The catalog and roster includes artists such as Frank Zappa, Joe Jackson, Soul Asylum, The Flaming Lips and They Might Be Giants. Completion of the transaction is subject to customary closing conditions including regulatory clearances, and is expected to close in the third quarter of fiscal 2006. Under the purchase method of accounting the acquisition cost will be allocated to the underlying net assets based on their fair values, including identifiable intangible assets such as music catalog and artist contracts. The excess of the purchase price over the estimated fair value of the net assets acquired, if any, will be recorded primarily as goodwill.

Bad Boy Records LLC Joint Venture

On April 8, 2005, the Company entered into an agreement with an affiliate of Sean Diddy Combs to form Bad Boy Records LLC (Bad Boy), a joint venture, owned 50% by the Company and 50% by the affiliate. The Company purchased its 50% membership interest in Bad Boy Records LLC for approximately $30 million in cash. Mr. Combs is the CEO of the joint venture and supervises its staff and day-to-day operations. The Company provides funding, marketing, promotion and certain back-office services for the joint venture. The

Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited) (Continued)

transaction was accounted for under the purchase method of accounting, and the results of operations of Bad Boy are included in the Company s results of operations from its acquisition date.

Sale of Warner Bros. Publications

In May 2005 the Company sold WBP, which conducted the Company s sheet music operations, to Alfred Publishing. As part of the transaction, the Company agreed to license the right to use its music publishing copyrights in the exploitation of printed sheet music and songbooks for a twenty-year period of time. No gain or loss was recognized on the transaction as the historical book basis of the net assets being sold was adjusted to fair value in connection with the accounting for the Acquisition. Due to the Company s continuing involvement with Warner Bros. Publications, it was not reported as discontinued operations.

The sale is not expected to have a material effect on the future operating results and financial condition of the Company. For the three months ended March 31, 2005, the operations sold generated revenues of approximately $11 million; an operating loss of $1 million; an operating loss before depreciation and amortization expense of $1 million; and a net loss of approximately $1 million. For the six months ended March 31, 2005, the operations sold generated revenues of approximately $26 million and had no operating income, operating income before depreciation and amortization expense, or net income.

Maverick

In November 2004, the Company acquired an additional 30% interest in Maverick Recording Company (Maverick) from its existing partner for approximately $17 million and certain amounts previously owed by such partner to the Company. The transaction was accounted for under the purchase method of accounting and the purchase price was allocated to the underlying net assets of Maverick in proportion to the estimated fair value, principally artist contracts and recorded music catalog. As part of the transaction, the Company and the remaining partner in Maverick entered into an agreement pursuant to which either party can elect to have the Company purchase the remaining 20% interest in Maverick that it does not own by December 2007.

4. Inventories

Inventories consist of the following (in millions):

	March 31, 2006	September 30, 2005
	(unaudited)	(audited)
Compact discs, cassettes and other music-related products	$ 80	$ 84
Published sheet music and song books	2	2
	82	86
Less reserve for obsolescence	(38)	(34)
	$ 44	$ 52

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Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited) (Continued)

5. Intangible Assets

Intangible assets consist of the following (in millions):

	September 30, 2005	Acquisitions	Other (a)	March 31, 2006
	(audited)			(unaudited)
Intangible assets subject to amortization:				
Record music catalog	$ 1,242	$ 4	$ (2)	$ 1,244
Music publishing copyrights	817	9	2	828
Artist contracts	31	4		