Warner Music Group Corp.
Form 10-Q
February 12, 2015

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 December 31, 2014

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.)

1633 Broadway

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 ¨ No x

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

There is no public market for the Registrant's common stock. As of February 12, 2015 the number of shares of the Registrant's common stock, par value $0.001 per share, outstanding was 1,055. All of the Registrant's common stock is owned by affiliates of Access Industries, Inc. The Registrant has filed all Exchange Act reports for the preceding 12 months.

WARNER MUSIC GROUP CORP.

INDEX

ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Warner Music Group Corp.

Consolidated Balance Sheets (Unaudited)

	December 31, 2014	September 30, 2014
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$145	$ 157
Accounts receivable, net of allowances of $86 million and $65 million	436	383
Inventories	39	39
Royalty advances expected to be recouped within one year	103	102
Deferred tax assets	46	46
Prepaid and other current assets	56	55
Total current assets	825	782
Royalty advances expected to be recouped after one year	190	190
Property, plant and equipment, net	233	227
Goodwill	1,649	1,661
Intangible assets subject to amortization, net	2,755	2,884
Intangible assets not subject to amortization	119	120
Other assets	83	90
Total assets	$5,854	$ 5,954
Liabilities and Equity		
Current liabilities:		
Accounts payable	$162	$ 215
Accrued royalties	1,146	1,132
Accrued liabilities	250	243
Accrued interest	48	60
Deferred revenue	255	219
Current portion of long-term debt	13	13
Other current liabilities	30	3
Total current liabilities	1,904	1,885
Long-term debt	3,005	3,017
Deferred tax liabilities, net	375	383
Other noncurrent liabilities	256	279
Total liabilities	$5,540	$ 5,564
Equity:		
Common stock ($0.001 par value; 10,000 shares authorized; 1,055 shares issued and outstanding)	$—	$ —
Additional paid-in capital	1,128	1,128
Accumulated deficit	(691)	(649)
Accumulated other comprehensive loss, net	(142)	(108)
Total Warner Music Group Corp. equity	295	371
Noncontrolling interest	19	19

Total equity	314	390
Total liabilities and equity	$5,854	$ 5,954

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013
	(in millions)	
Revenues	$829	$ 815
Costs and expenses:		
Cost of revenue	(445)	(441)
Selling, general and administrative expenses (a)	(296)	(293)
Amortization expense	(65)	(66)
Total costs and expenses	(806)	(800)
Operating income	23	15
Interest expense, net	(46)	(55)
Other expense	(9)	(4)
Loss before income taxes	(32)	(44)
Income tax (expense) benefit	(9)	8
Net loss	(41)	(36)
Less: Income attributable to noncontrolling interest	(1)	(1)
Net loss attributable to Warner Music Group Corp.	$(42)	$ (37)
(a) Includes depreciation expense of:	$(14)	$ (12)

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Comprehensive Loss (Unaudited)

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013
	(in millions)	
Net loss	$ (41)	$ (36)
Other comprehensive loss, net of tax:		
Foreign currency adjustment	(34)	(8)
Other comprehensive loss, net of tax	(34)	(8)
Total comprehensive loss	(75)	(44)
Less: Income attributable to noncontrolling interest	(1)	(1)
Comprehensive loss attributable to Warner Music Group Corp.	$ (76)	$ (45)

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013
	(in millions)	
Cash flows from operating activities		
Net loss	$(41)	$(36)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	79	78
Unrealized gains/losses and remeasurement of foreign denominated loans	14	(20)
Deferred income taxes	—	(16)
Non-cash interest expense	2	4
Non-cash share-based compensation expense	—	3
Changes in operating assets and liabilities:		
Accounts receivable	(67)	(56)
Inventories	(1)	(1)
Royalty advances	(7)	(35)
Accounts payable and accrued liabilities	(47)	(79)
Royalty payables	46	56
Accrued interest	(12)	(17)
Deferred revenue	39	60
Other balance sheet changes	30	7
Net cash provided by (used in) operating activities	35	(52)
Cash flows from investing activities		
Acquisition of music publishing rights, net	(5)	(10)
Capital expenditures	(24)	(12)
Investments and acquisitions of businesses, net	(8)	(4)
Net cash used in investing activities	(37)	(26)
Cash flows from financing activities		
Proceeds from the Revolving Credit Facility	100	155
Repayment of the Revolving Credit Facility	(100)	(100)
Repayment of Acquisition Corp. Senior Term Loan Facility	(3)	—
Distribution to noncontrolling interest holder	—	(1)
Net cash (used in) provided by financing activities	(3)	54
Effect of exchange rate changes on cash and equivalents	(7)	(2)
Net decrease in cash and equivalents	(12)	(26)
Cash and equivalents at beginning of period	157	155
Cash and equivalents at end of period	$145	$129

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Equity (Unaudited)

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. Equity	Noncontrolling Interest	Total Equity
	(in millions, except per share amounts)							
Balance at September 30, 2014	1,055	$0.001	$ 1,128	$ (649)	$ (108)	$ 371	$ 19	$ 390
Net (loss) income	—	—	—	(42)	—	(42)	1	(41)
Other comprehensive loss, net of tax	—	—	—	—	(34)	(34)	—	(34)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(1)	(1)
Balance at December 31, 2014	1,055	$0.001	$ 1,128	$ (691)	$ (142)	$ 295	$ 19	$ 314

See accompanying notes

Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited)

1. Description of Business

Warner Music Group Corp. (the “Company”) was formed 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-based content companies.

Acquisition of Warner Music Group by Access Industries

Pursuant to an Agreement and Plan of Merger, dated as of May 6, 2011 (the “Merger Agreement”), by and among the Company, AI Entertainment Holdings LLC (formerly Airplanes Music LLC), a Delaware limited liability company (“Parent”) and an affiliate of Access Industries, Inc. (“Access”), and Airplanes Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent (“Merger Sub”), on July 20, 2011 (the “Merger Closing Date”) Merger Sub merged with and into the Company with the Company surviving as a wholly owned subsidiary of Parent (the “Merger”). In connection with the Merger, the Company delisted its common stock from the NYSE. The Company continues to file with the SEC current and periodic reports that would be required to be filed with the SEC pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) in accordance with certain covenants contained in the agreements governing its outstanding indebtedness.

Acquisition of Parlophone Label Group

On July 1, 2013, the Company completed its acquisition of Parlophone Label Group (the “PLG Acquisition”).

The Company classifies its business interests into two fundamental operations: Recorded Music and Music Publishing. A brief description of these operations is presented below.

Recorded Music Operations

The Company’s Recorded Music business primarily consists of the discovery and development of artists and the related marketing, distribution and licensing of recorded music produced by such artists. The Company plays an integral role in virtually all aspects of the recorded music value chain from discovering and developing talent to producing albums and promoting artists and their products.

In the United States, Recorded Music operations are conducted principally through the Company’s major record labels—Warner Bros. Records and the Atlantic Records Group. The Company’s Recorded Music operations also include Rhino, a division that 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 recordings to and from third parties for various uses, including film and television soundtracks. The Company also conducts its Recorded Music operations through a collection of additional record labels, including, among others, Asylum, Big Beat, East West, Elektra, Erato, Fueled by Ramen, Nonesuch, Parlophone, Reprise, Roadrunner, Rykodisc, Sire, Warner Classics, Warner Music Nashville and Word.

Outside the United States, Recorded Music activities are conducted in more than 50 countries primarily through various subsidiaries, affiliates and non-affiliated licensees. Internationally, the Company engages in the same activities as in the United States: discovering and signing artists and distributing, marketing and selling their recorded music. In most cases, the Company also markets and distributes the records of those artists for whom the Company’s domestic record labels have international rights. In certain smaller markets, the Company licenses the right to distribute the Company's records to non-affiliated third-party record labels. The Company's international artist services operations also include a network of concert promoters through which it provides resources to coordinate tours for the Company's artists and other artists as well as management companies that partner with artists on other aspects of their career such as merchandising, fan clubs and endorsements, as well as appearances and sponsorship.

The Company's Recorded Music distribution operations include Warner-Elektra-Atlantic Corporation ("WEA Corp."), which markets and sells music and video products to retailers and wholesale distributors; Alternative Distribution Alliance ("ADA"), which distributes the products of independent labels to retail and wholesale distributors; various distribution centers and ventures operated internationally; and an 80% interest in Word, which specializes in the distribution of music products in the Christian retail marketplace.

In addition to the Company's Recorded Music products being sold in physical retail outlets, Recorded Music products are also sold in physical form to online physical retailers such as Amazon.com, barnesandnoble.com and bestbuy.com and in digital form to online digital download services such as Apple's iTunes and Google Play, and are otherwise used by digital streaming services such as Beats Music, Deezer, Rhapsody, Spotify and YouTube, and digital radio services such as Pandora, iTunes Radio and iHeart Radio.

The Company has integrated the sale of digital content into all aspects of its business, including artist and repertoire ("A&R"), marketing, promotion and distribution. The Company's business development executives work closely with A&R departments to ensure that while a record is being produced, digital assets are also created with all distribution channels in mind, including streaming services, social networking sites, online portals and music-centered destinations. The Company also works side-by-side with its online and mobile partners to test new concepts. The Company believes existing and new digital businesses will be a significant source of growth for at least the next several years and will provide new opportunities to successfully monetize its assets and create new revenue streams. The proportion of digital revenues attributed to each distribution channel varies by region and proportions may change as the roll out of new technologies continues. As an owner of music content, the Company believes it is well positioned to take advantage of growth in digital distribution and emerging technologies to maximize the value of its assets.

The Company is also diversifying its revenues beyond its traditional businesses by entering into expanded-rights deals with recording artists in order to partner with artists in other aspects of their careers. Under these agreements, the Company provides services to and participates in artists' activities outside the traditional recorded music business. The Company builds artist services capabilities and platforms for exploiting this broader set of music-related rights and participating more broadly in the monetization of the artist brands it helps create.

The Company believes that entering into artist services and expanded-rights deals and enhancing its artist services capabilities will permit it to diversify revenue streams and capitalize on revenue opportunities in merchandising, fan clubs, sponsorship, concert promotion and touring. This will provide for improved long-term relationships with artists and allow the Company to more effectively connect artists and fans.

Music Publishing Operations

While recorded music is focused on exploiting a particular recording of a composition, music publishing is an intellectual property business focused on the exploitation of the composition itself. 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 from use of the composition.

The Company's Music Publishing operations include Warner/Chappell, its 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. Assembled over decades, its award-winning catalog includes over 65,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative, gospel and other Christian music. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd., Hallmark Entertainment and Disney Music Publishing. Through consistent and tactical talent investment, Warner Chappell has developed a broad array of talent across all genres, resulting in Warner/Chappell being awarded ASCAP's Top Publisher of the Year for each of Pop, Country and Urban in 2014. The Company's production music library business includes Non-Stop Music, Groove Addicts Production Music Library, Carlin Recorded Music Library, 615 Music and Frank Gari Productions and Gari Communications, collectively branded as Warner/Chappell Production Music.

2. Summary of Significant Accounting Policies

Interim Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended December 31, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2015.

The consolidated balance sheet at September 30, 2014 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by U.S. GAAP for complete financial statements.

For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2014 (File No. 001-32502).

Basis of Consolidation

The accompanying financial statements present the consolidated accounts of all entities in which the Company has a controlling voting interest and/or variable interest required to be consolidated in accordance with U.S. GAAP. All intercompany balances and transactions have been eliminated.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810, Consolidation ("ASC 810") requires the Company first evaluate its investments to determine if any investments qualify as a variable interest entity ("VIE"). A VIE is consolidated if the Company is deemed to be the primary beneficiary of the VIE, which is the party involved with the VIE that has both (i) the power to control the most significant activities of the VIE and (ii) either the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. If an entity is not deemed to be a VIE, the Company consolidates the entity if the Company has a controlling voting interest.

The Company maintains a 52-53 week fiscal year ending on the last Friday in each reporting period. As such, all references to December 31, 2014 and December 31, 2013 relate to the three-month periods ended December 26, 2014 and December 27, 2013, respectively. For convenience purposes, the Company continues to date its financial statements as of December 31. The fiscal year ended September 30, 2014 ended on September 26, 2014. For convenience purposes, the Company continues to date its balance sheet as of September 30.

The Company has performed a review of all subsequent events through the date the financial statements were issued, and has determined that no additional disclosures are necessary.

New Accounting Pronouncements

During the first quarter of fiscal 2015, the Company adopted Accounting Standards Update ("ASU") 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"). ASU 2013-11 requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The adoption of this standard did not have an impact on the Company's financial statements, other than presentation.

During the first quarter of fiscal 2015, the Company adopted ASU 2014-17, Business Combinations (Topic 805): Pushdown Accounting ("ASU 2014-17"). This ASU provides acquired entities the option to apply pushdown accounting in their separate financial statements when an acquirer obtains control of them. ASU 2014-17 was effective upon issuance. This election to apply pushdown accounting is made for each individual change-in-control event. The adoption of this standard did not have an impact on the Company's financial statements.

In May 2014, the FASB issued guidance codified in ASC 606, Revenue Recognition – Revenue from Contracts with Customers ("ASC 606"), which replaces the guidance in former ASC 605, Revenue Recognition and ASC 928, Entertainment – Music. The amendment was the result of a joint effort by the FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and international financial reporting standards ("IFRS"). The joint project clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP and IFRS. ASC 606 is effective for annual periods beginning after December 15, 2016, and interim periods within those years. Early application is not permitted. The update may be applied using one of two methods: retrospective application to each prior reporting period presented, or retrospective application with the cumulative effect of initially applying the update recognized at the date of initial application. The Company is currently evaluating the transition method that will be elected and the impact of the update on its financial statements and disclosures.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). This ASU will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related disclosure when substantial doubt exists. ASU 2014-15 will be effective in the first annual period ending after December 15, 2016, and interim periods thereafter. Earlier adoption is permitted. The adoption of this standard is not expected to have a significant impact on the Company's financial statements, other than disclosure.

3. Comprehensive Loss

Comprehensive loss, which is reported in the accompanying consolidated statements of equity, consists of net income (loss) and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income (loss). For the Company, the components of other comprehensive loss primarily consist of foreign currency translation losses and minimum pension liabilities. The following summary sets forth the changes in the components of accumulated other comprehensive loss, net of related taxes:

	Foreign Currency Translation Loss	Minimum Pension Liability Adjustment	Accumulated Other Comprehensive Loss, net
	(in millions)		
Balance at September 30, 2014	$ (98)	$ (10)	$ (108)
Other comprehensive loss (a)	(34)	—	(34)
Amounts reclassified from accumulated other comprehensive income	—	—	—
Balance at December 31, 2014	$ (132)	$ (10)	$ (142)

(a) Foreign currency translation adjustments include intra-entity foreign currency transactions that are of a long-term investment nature of $38.9 million

4. Goodwill and Intangible Assets

Goodwill

The following analysis details the changes in goodwill for each reportable segment:

	Recorded Music	Music Publishing	Total
	(in millions)		
Balance at September 30, 2014	$ 1,197	$ 464	$ 1,661
Acquisitions	2	—	2
Dispositions	—	—	—
Other adjustments	(14)	—	(14)
Balance at December 31, 2014	$ 1,185	$ 464	$ 1,649

Other adjustments during the three months ended December 31, 2014 represent foreign currency movements.

The Company performs its annual goodwill impairment test in accordance with FASB ASC Topic 350, Intangibles—Goodwill and other ("ASC 350") during the fourth quarter of each fiscal year as of July 1. The Company may conduct an earlier review if events or circumstances occur that would suggest the carrying value of the Company's goodwill may not be recoverable. No indicators of impairment were identified during the current period that required the Company to perform an interim assessment or recoverability test.

Intangible Assets

Intangible assets consist of the following:

	Weighted Average Useful Life	December 31, 2014	September 30, 2014
		(in millions)	
Intangible assets subject to amortization:			
Recorded music catalog	11 years	$1,010	$ 1,040
Music publishing copyrights	27 years	1,527	1,550
Artist and songwriter contracts	13 years	946	975
Trademarks	7 years	7	7
Total gross intangible asset subject to amortization		3,490	3,572
Accumulated amortization		(735)	(688)
Total net intangible assets subject to amortization		2,755	2,884
Intangible assets not subject to amortization:			
Trademarks and tradenames	Indefinite	119	120
Total net other intangible assets		$2,874	$ 3,004

5. Debt

Debt Capitalization

Long-term debt, including the current portion, consists of the following:

	December 31, 2014	September 30, 2014
	(in millions)	
Revolving Credit Facility—Acquisition Corp. (a)	$—	$ —
Senior Term Loan Facility due 2020—Acquisition Corp. (b)	1,291	1,294
5.625% Senior Secured Notes due 2022—Acquisition Corp.	275	275
6.00% Senior Secured Notes due 2021—Acquisition Corp.	450	450
6.25% Senior Secured Notes due 2021—Acquisition Corp. (c)	192	201
6.75% Senior Notes due 2022—Acquisition Corp.	660	660
13.75% Senior Notes due 2019—Holdings	150	150
Total debt	3,018	3,030
Less: current portion	13	13
Total long-term debt	$3,005	$ 3,017

(a) Reflects $150 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $10 million and $11 million at December 31, 2014 and September 30, 2014, respectively. There were no loans outstanding under the Revolving Credit Facility at December 31, 2014 or September 30, 2014.

(b) Principal amount of $1.297 billion and $1.300 billion less unamortized discount of $6 million and $6 million at December 31, 2014 and September 30, 2014, respectively. Of this amount, $13 million, representing the scheduled amortization of the Term Loan, was included in the current portion of long-term debt at December 31, 2014 and September 30, 2014.

(c) Face amount of €158 million. Above amounts represent the dollar equivalent of such notes at December 31, 2014 and September 30, 2014.

Interest Rates

The loans under the Revolving Credit Facility bear interest at Acquisition Corp.'s election at a rate equal to (i) the rate for deposits in the borrowing currency in the London interbank market (adjusted for maximum reserves) for the applicable interest period ("Revolving LIBOR"), plus 2.00% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) the one-month Revolving LIBOR plus 1.0% per annum, plus, in each case, 1.00% per annum. If there is a payment default at any time, then the interest rate applicable to overdue principal will be the rate otherwise applicable to such loan plus 2.0% per annum. Default interest will also be payable on other overdue amounts at a rate of 2.0% per annum above the amount that would apply to an alternative base rate loan.

The loans under the Senior Term Loan Facility bear interest at Acquisition Corp.'s election at a rate equal to (i) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period ("Term Loan LIBOR"), plus 2.75% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent as its prime rate in effect at its principal office in New York City from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) one-month Term Loan LIBOR, plus 1.00% per annum, plus, in each case, 1.75% per annum. The loans under the Senior Term Loan Facility are subject to a Term Loan LIBOR "floor" of 1.00%. If there is a payment default at any time, then the interest rate applicable to overdue principal and interest will be the rate otherwise applicable to such loan plus 2.0% per annum. Default interest will also be payable on other overdue amounts at a rate of 2.0% per annum above the amount that would apply to an alternative base rate loan.

Amortization and Maturity of Senior Term Loan Facility

The loans under the Senior Term Loan Facility amortize in equal quarterly installments due December, March, June and September in aggregate annual amounts equal to 1.00% of the original principal amount of the amended Senior Term Loan Facility, or $13 million per year, with the balance payable on maturity date of the Term Loans. The loans outstanding under the Senior Term Loan Facility mature on July 1, 2020.

Maturity of Revolving Credit Facility

The maturity date of the Revolving Credit Facility is April 1, 2019.

Maturities of Senior Notes and Senior Secured Notes

As of December 31, 2014, there are no scheduled maturities of notes until 2019, when $150 million is scheduled to mature. Thereafter, $1.577 billion is scheduled to mature.

Interest Expense, net

Total interest expense, net, was $46 million and $55 million for the three months ended December 31, 2014 and December 31, 2013, respectively. The weighted-average interest rate of the Company's total debt was 5.6% at December 31, 2014 and 5.6% at September 30, 2014.

6. Restructuring

In conjunction with the PLG Acquisition, the Company undertook a plan to achieve cost savings (the "Restructuring Plan"), primarily through headcount reductions. The Restructuring Plan was approved by the CEO prior to the close of the PLG Acquisition. Under the Restructuring Plan, the Company currently expects to record an aggregate of approximately $77 million in restructuring charges, currently estimated to be made up of employee-related costs of $69 million, real estate costs of $6 million and other costs of $2 million. Total restructuring costs of $1 million related to real estate were incurred in the three months ended December 31, 2014 with respect to these actions. Total restructuring costs of $7 million were incurred in the three months ended December 31, 2013 with respect to these actions, which consisted entirely of employee-related costs. Total restructuring costs to date under the Restructuring Plan are $73 million, including total cash payments of $68 million. The remainder of the Restructuring Plan is expected to be completed by the end of fiscal 2015.

Total restructuring activity is as follows:

	Employee-related Costs	Real Estate Costs	Other	Total
	(in millions)			
Balance at September 30, 2014	$12	$ 1	$ —	$ 13
Restructuring expense	—	1	—	1
Cash payments	(8)	(1)	—	(9)
Balance at December 31, 2014	$4	$ 1	$ —	$ 5

The restructuring accrual is recorded in other current liabilities on the consolidated balance sheet. These balances reflect estimated future cash outlays.

A summary of the charges in the consolidated statements of operations resulting from the Restructuring Plan is shown below:

	Three Months Ended December 31, 2014	Three Months Ended December 31, 2013
	(in millions)	
Selling, general and administrative expenses	$ 1	$ 7
Total restructuring expense	$ 1	$ 7

All of the above expenses were recorded in the Recorded Music reportable segment.

7. Commitments and Contingencies

Pricing of Digital Music Downloads

On December 20, 2005 and February 3, 2006, the Attorney General of the State of New York served the Company with requests for information in connection with an industry-wide investigation as to the pricing of digital music downloads. On February 28, 2006, the Antitrust Division of the U.S. Department of Justice served us with a Civil Investigative Demand, also seeking information relating to the pricing of digitally downloaded music. Both investigations were ultimately closed, but subsequent to the announcements of the investigations, more than thirty putative class action lawsuits were filed concerning the pricing of digital music downloads. The lawsuits were consolidated in the Southern District of New York. The consolidated amended complaint, filed on April 13, 2007, alleges conspiracy among record companies to delay the release of their content for digital distribution, inflate their pricing of CDs and fix prices for digital downloads. The complaint seeks unspecified compensatory, statutory and treble damages. On October 9, 2008, the District Court issued an order dismissing the case as to all defendants, including us. However, on January 12, 2010, the Second Circuit vacated the judgment of the District Court and remanded the case for further proceedings and on January 10, 2011, the Supreme Court denied the defendants' petition for Certiorari.

Upon remand to the District Court, all defendants, including the Company, filed a renewed motion to dismiss challenging, among other things, plaintiffs' state law claims and standing to bring certain claims. The renewed motion was based mainly on arguments made in defendants' original motion to dismiss, but not addressed by the District Court. On July 18, 2011, the District Court granted defendants' motion in part, and denied it in part. Notably, all claims on behalf of the CD-purchaser class were dismissed with prejudice. However, a wide variety of state and federal claims remain for the class of internet download purchasers. Plaintiffs filed an operative consolidated amended complaint on August 31, 2011. Pursuant to the terms of an August 15, 2011 stipulation and order, the case is currently in discovery. Disputes regarding the scope of discovery are ongoing. Plaintiffs filed a Class Certification brief on March 14, 2014. The Company's reply date has not yet been set. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Regardless of the merits of the claims, this and any related litigation could continue to be costly, and divert the time and resources of management. The potential outcomes of these claims that are reasonably possible cannot be determined at this time and an estimate of the reasonably possible loss or range of loss cannot presently be made.

Music Download Putative Class Action Suits

Five putative class action lawsuits have been filed against the Company in Federal Court in the Northern District of California between February 2, 2012 and March 10, 2012. The lawsuits, which were brought by various recording artists, all allege that the Company has improperly calculated the royalties due to them for certain digital music sales under the terms of their recording contracts. The named plaintiffs purport to raise these claims on their own behalf and, as a putative class action, on behalf of other similarly situated artists. Plaintiffs base their claims on a previous ruling that held another recorded music company had breached the specific recording contracts at issue in that case through its payment of royalties for music downloads and ringtones. In the wake of that ruling, a number of recording artists have initiated suits seeking similar relief against all of the major record companies, including us. Plaintiffs seek to have the interpretation of the contracts in that prior case applied to their different and separate contracts.

On April 10, 2012, the Company filed a motion to dismiss various claims in one of the lawsuits, with the intention of filing similar motions in the remaining suits, on the various applicable response dates. Meanwhile, certain plaintiffs' counsel moved to be appointed as interim lead counsel, and other plaintiffs' counsel moved to consolidate the various actions. In a June 1, 2012 order, the court consolidated the cases and appointed interim co-lead class counsel. Plaintiffs filed a consolidated, master complaint on August 21, 2012.

On December 31, 2013, Plaintiffs filed a Motion for Preliminary Approval of Class Action Settlement. On January 23, 2014, the Court granted preliminary approval of the settlement. As part of the settlement, the Company will make available $11.5 million (less attorneys' fees, costs, and costs of claims administration and class notice) to compensate class members for past sales of downloads and ringtones. Class members had until May 31, 2014 to file claims, opt-out or object to the Class Action Settlement. No class members made perfected objections to the settlement. Plaintiffs filed their motion for final approval of the Settlement Agreement on November 26, 2014. On January 12, 2015, the Judge granted final approval of the settlement. The settlement will become effective on February 25, 2015, after a 30-day appeals period. The Company has recorded what it believes is an appropriate reserve related to these cases, which amount is not material.

Other Matters

In addition to the matters discussed above, the Company is involved in various litigation and regulatory proceedings arising in the normal course of business. Where it is determined, in consultation with counsel based on litigation and settlement risks, that a loss is probable and estimable in a given matter, the Company establishes an accrual. In none of the currently pending proceedings is the amount of accrual material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued cannot be made at this time due to various factors typical in contested proceedings, including (1) the results of ongoing discovery; (2) uncertain damage theories and demands; (3) a less than complete factual record; (4) uncertainty concerning legal theories and their resolution by courts or regulators; and (5) the unpredictable nature of the opposing party and its demands. However, the Company cannot predict with certainty the outcome of any litigation or the potential for future litigation. As such, the Company continuously monitors these proceedings as they develop and adjusts any accrual or disclosure as needed. Regardless of the outcome, litigation could have an adverse impact on the Company, including the Company's brand value, because of defense costs, diversion of management resources and other factors and it could have a material effect on the Company's results of operations for a given reporting period.

8. Segment Information

As discussed more fully in Note 1, based on the nature of its products and services, the Company classifies its business interests into two fundamental operations: Recorded Music and Music Publishing, which also represent the reportable segments of the Company. Information as to each of these operations is set forth below. The Company evaluates performance based on several factors, of which the primary financial measure is operating income (loss) before non-cash depreciation of tangible assets and non-cash amortization of intangible assets ("OIBDA"). The Company has supplemented its analysis of OIBDA results by segment with an analysis of operating income (loss) by segment.

The accounting policies of the Company's business segments are the same as those described in the summary of significant accounting policies included elsewhere herein. The Company accounts for intersegment sales at fair value as if the sales were to third parties. While intercompany transactions are treated like third-party transactions to determine segment performance, the revenues (and corresponding expenses recognized by the segment that is counterparty to the transaction) are eliminated in consolidation, and therefore, do not themselves impact consolidated results.

	Recorded Music	Music Publishing	Corporate expenses and eliminations	Total
Three Months Ended	(in millions)			

December 31, 2014				
Revenues	$714	$ 119	$ (4)	$829
OIBDA	111	17	(26)	102
Depreciation of property, plant and equipment	(10)	(1)	(3)	(14)
Amortization of intangible assets	(49)	(16)	—	(65)
Operating income (loss)	52	—	(29)	23
December 31, 2013				
Revenues	$691	$ 128	$ (4)	$815
OIBDA	93	19	(19)	93
Depreciation of property, plant and equipment	(8)	(1)	(3)	(12)
Amortization of intangible assets	(50)	(16)	—	(66)
Operating income (loss)	35	2	(22)	15

9. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $56 million and $68 million during the three months ended December 31, 2014 and December 31, 2013, respectively. The Company paid cash taxes of $8 million offset by a refund of $9 million in Germany for the three months ended December 31, 2014 as compared to taxes paid of $3 million, net of refunds, for the three months ended December 31, 2013.

10. Fair Value Measurements

ASC 820 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity.

In addition to defining fair value, ASC 820 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1—inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
Level 2—inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
Level 3—inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models and similar techniques.

In accordance with the fair value hierarchy, described above, the following table shows the fair value of the Company's financial instruments that are required to be measured at fair value as of December 31, 2014 and September 30, 2014.

	Fair Value Measurements as of December 31, 2014			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Liabilities:				
Contractual Obligations (a)	—	—	(2)	(2)
Other Non-Current Liabilities:				
Contractual Obligations (a)	—	—	(1)	(1)
Total	$ —	$ —	$ (3)	$ (3)

	Fair Value Measurements as of September 30, 2014			
	(Level 1)	(Level 2)	(Level 3)	Total

	(in millions)			
Other Current Liabilities:				
Contractual Obligations (a)	—	—	(2)	(2)
Other Non-Current Liabilities:				
Contractual Obligations (a)	—	—	(1)	(1)
Total	$ —	$ —	$ (3)	$ (3)

(a) This represents purchase obligations and contingent consideration related to the Company's various acquisitions. This is based on a discounted cash flow approach and it is adjusted to fair value on a recurring basis and any adjustments are included as a component of operating income in the statement of operations. These amounts were mainly calculated using unobservable inputs such as future earnings performance of the Company's various acquisitions and the expected timing of the payment.

The following table reconciles the beginning and ending balances of net assets and liabilities classified as Level 3:

	Total (in millions)
Balance at September 30, 2014	$ (3)
Additions	—
Reductions	—
Payments	—
Balance at December 31, 2014	$ (3)

The majority of the Company's non-financial instruments, which include goodwill, intangible assets, inventories, and property, plant, and equipment, are not required to be re-measured to fair value on a recurring basis. These assets are evaluated for impairment if certain triggering events occur. If such evaluation indicates that impairment exists, the asset is written down to its fair value. In addition, an impairment analysis is performed at least annually for goodwill and indefinite-lived intangible assets.

Fair Value of Debt

Based on the level of interest rates prevailing at December 31, 2014, the fair value of the Company's debt was $2.890 billion. Based on the level of interest rates prevailing at September 30, 2014, the fair value of the Company's debt was $3.026 billion. The fair value of the Company's debt instruments are determined using quoted market prices from less active markets or by using quoted market prices for instruments with identical terms and maturities; both approaches are considered a Level 2 measurement.

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Financial Statements

The Company is the direct parent of Holdings, which is the direct parent of Acquisition Corp. Holdings has issued and outstanding the 13.75% Senior Notes due 2019 (the “Holdings Notes”). In addition, Acquisition Corp. has issued and outstanding the 5.625% Senior Secured Notes due 2022, the 6.00% Senior Secured Notes due 2021, the 6.25% Senior Secured Notes due 2021, and the 6.75% Senior Notes due 2022 (together, the “Acquisition Corp. Notes”).

The Holdings Notes are guaranteed by the Company. These guarantees are full, unconditional, joint and several. The following condensed consolidating financial statements are presented for the information of the holders of the Holdings Notes and present the results of operations, financial position and cash flows of (i) the Company, which is the guarantor of the Holdings Notes, (ii) Holdings, which is the issuer of the Holdings Notes, (iii) the subsidiaries of Holdings (Acquisition Corp. is the only direct subsidiary of Holdings) and (iv) the eliminations necessary to arrive at the information for the Company on a consolidated basis. Investments in consolidated or combined subsidiaries are presented under the equity method of accounting.

The Acquisition Corp. Notes are also guaranteed by the Company and, in addition, are guaranteed by all of Acquisition Corp.’s domestic wholly-owned subsidiaries. The secured notes are guaranteed on a senior secured basis and the unsecured notes are guaranteed on an unsecured senior basis. The Company’s guarantee of the Acquisition Corp. Notes is full and unconditional. The guarantee of the Acquisition Corp. Notes by Acquisition Corp.’s domestic, wholly-owned subsidiaries are full, unconditional, joint and several. The following condensed consolidating financial statements are also presented for the information of the holders of the Acquisition Corp. Notes and present the results of operations, financial position and cash flows of (i) Acquisition Corp., which is the issuer of the Acquisition Corp. Notes, (ii) the guarantor subsidiaries of Acquisition Corp., (iii) the non-guarantor subsidiaries of Acquisition Corp. and (iv) the eliminations necessary to arrive at the information for Acquisition Corp. on a consolidated basis. Investments in consolidated subsidiaries are presented under the equity method of accounting. There are no restrictions on Acquisition Corp.’s ability to obtain funds from any of its wholly-owned subsidiaries through dividends, loans or advances.

The Company and Holdings are holding companies that conduct substantially all of their business operations through Acquisition Corp. Accordingly, the ability of the Company and Holdings to obtain funds from their subsidiaries is restricted by the indentures for the Acquisition Corp. Notes and the credit agreements for the Acquisition Corp. Senior Credit Facilities, and, with respect to the Company, the indenture for the Holdings Notes.

The Company has revised its presentation for the prior period Guarantor and Non-Guarantor Financial Information from what was filed in our Form 10-Q on February 6, 2014. The Company uses the guidance under ASC Subtopic 605-45, Principal Agent Considerations, to determine when to measure revenue on a “gross” or “net” basis depending on whether the Company is acting as the “principal” in the transaction or acting as an “agent” in the transaction. The revised Consolidating Statement of Operations presentation reflects adjustments to certain revenue and expense balances to properly reflect the impact of one of the Guarantor entities acting as the principal in our digital arrangements. We have also revised the presentation of our Consolidating Balance Sheet to reflect the adjusted investment and equity balances as a result of the changes noted above in the Consolidating Statement of Operations. The principal elimination entries eliminate investments in subsidiaries and intercompany balances.

Consolidating Balance Sheet

December 31, 2014

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Assets:									
Current assets:									
Cash and equivalents	$—	$ 22	$ 123	$ —	$ 145	$ —	$ —	$ —	$ 145
Accounts receivable, net	—	137	299	—	436	—	—	—	436
Inventories	—	12	27	—	39	—	—	—	39
Royalty advances expected to be recouped within one year	—	61	42	—	103	—	—	—	103
Deferred tax assets	—	21	25	—	46	—	—	—	46
Prepaid and other current assets	5	7	44	—	56	—	—	—	56
Total current assets	5	260	560	—	825	—	—	—	825
Due (to) from parent companies	998	(347)	(651)	—	—	—	—	—	—
Investments in and advances to (from) consolidated subsidiaries	2,319	1,303	—	(3,622)	—	444	295	(739)	—
Royalty advances expected to be recouped after one year	—	113	77	—	190	—	—	—	190
Property, plant and equipment, net	—	151	82	—	233	—	—	—	233
Goodwill	—	1,378	271	—	1,649	—	—	—	1,649
Intangible assets subject to amortization, net	—	1,352	1,403	—	2,755	—	—	—	2,755
Intangible assets not subject to amortization	—	71	48	—	119	—	—	—	119
Other assets	44	14	19	—	77	6	—	—	83
Total assets	$ 3,366	$ 4,295	$ 1,809	$ (3,622)	$ 5,848	$ 450	$ 295	$ (739)	$ 5,854
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$—	$ 75	$ 87	$ —	$ 162	$ —	$ —	$ —	$ 162
Accrued royalties	—	494	652	—	1,146	—	—	—	1,146
Accrued liabilities	—	75	175	—	250	—	—	—	250
Accrued interest	43	—	—	—	43	5	—	—	48
Deferred revenue	—	186	69	—	255	—	—	—	255
Current portion of long-term debt	13	—	—	—	13	—	—	—	13
Other current liabilities	8	1	21	—	30	—	—	—	30

Total current liabilities	64	831	1,004	—	1,899	5	—	—	1,904
Long-term debt	2,855	—	—	—	2,855	150	—	—	3,005
Deferred tax liabilities, net	—	128	247	—	375	—	—	—	375
Other noncurrent liabilities	3	120	133	—	256	—	—	—	256
Total liabilities	2,922	1,079	1,384	—	5,385	155	—	—	5,540
Total Warner Music Group Corp. equity (deficit)	444	3,215	407	(3,622)	444	295	295	(739)	295
Noncontrolling interest	—	1	18	—	19	—	—	—	19
Total equity (deficit)	444	3,216	425	(3,622)	463	295	295	(739)	314
Total liabilities and equity (deficit)	$ 3,366	$ 4,295	$ 1,809	$ (3,622)	$ 5,848	$ 450	$ 295	$ (739)	$ 5,854

Consolidating Balance Sheet

September 30, 2014

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Assets:									
Current assets:									
Cash and equivalents	$—	$ 26	$ 131	$ —	$ 157	$ —	$ —	$ —	$ 157
Accounts receivable, net	—	174	209	—	383	—	—	—	383
Inventories	—	13	26	—	39	—	—	—	39
Royalty advances expected to be recouped within one year	—	62	40	—	102	—	—	—	102
Deferred tax assets	—	21	25	—	46	—	—	—	46
Prepaid and other current assets	5	10	40	—	55	—	—	—	55
Total current assets	5	306	471	—	782	—	—	—	782
Due (to) from parent companies	924	(242)	(682)	—	—	—	—	—	—
Investments in and advances to (from) consolidated subsidiaries	2,531	1,142	—	(3,673)	—	525	371	(896)	—
Royalty advances expected to be recouped after one year	—	115	75	—	190	—	—	—	190
Property, plant and equipment, net	—	143	84	—	227	—	—	—	227
Goodwill	—	1,379	282	—	1,661	—	—	—	1,661
Intangible assets subject to amortization, net	—	1,372	1,512	—	2,884	—	—	—	2,884
Intangible assets not subject to amortization	—	75	45	—	120	—	—	—	120
Other assets	46	10	28	—	84	6	—	—	90
Total assets	$3,506	$ 4,300	$ 1,815	$ (3,673)	$ 5,948	$ 531	$ 371	$ (896)	$ 5,954
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$38	$ 91	$ 86	$ —	$ 215	$ —	$ —	$ —	$ 215
Accrued royalties	—	531	601	—	1,132	—	—	—	1,132
Accrued liabilities	—	64	179	—	243	—	—	—	243
Accrued interest	50	—	—	—	50	10	—	—	60
Deferred revenue	—	167	52	—	219	—	—	—	219
Current portion of long-term debt	13	—	—	—	13	—	—	—	13
Other current liabilities	—	1	2	—	3	—	—	—	3

Total current liabilities	101	854	920	—	1,875	10	—	—	1,885
Long-term debt	2,867	—	—	—	2,867	150	—	—	3,017
Deferred tax liabilities, net	—	128	255	—	383	—	—	—	383
Other noncurrent liabilities	13	124	142	—	279	—	—	—	279
Total liabilities	2,981	1,106	1,317	—	5,404	160	—	—	5,564
Total Warner Music Group Corp. equity (deficit)	525	3,192	481	(3,673)	525	371	371	(896)	371
Noncontrolling interest	—	2	17	—	19	—	—	—	19
Total equity (deficit)	525	3,194	498	(3,673)	544	371	371	(896)	390
Total liabilities and equity (deficit)	$ 3,506	$ 4,300	$ 1,815	$ (3,673)	$ 5,948	$ 531	$ 371	$ (896)	$ 5,954

20

Consolidating Statement of Operations

For The Three Months Ended December 31, 2014

	WMG Acquisition Corp. (issuer) (in millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Revenues	$—	$ 361	$ 513	$ (45)	$ 829	$ —	$ —	$ —	$ 829
Costs and expenses:									
Cost of revenue	—	(167)	(318)	40	(445)	—	—	—	(445)
Selling, general and administrative expenses	1	(133)	(169)	5	(296)	—	—	—	(296)
Amortization of intangible assets	—	(30)	(35)	—	(65)	—	—	—	(65)
Total costs and expenses	1	(330)	(522)	45	(806)	—	—	—	(806)
Operating (loss) income	1	31	(9)	—	23	—	—	—	23
Interest income (expense), net	(21)	2	(22)	—	(41)	(5)	—	—	(46)
Equity gains (losses) from consolidated subsidiaries	(6)	(2)	—	8	—	(37)	(42)	79	—
Other income (expense), net	(2)	—	(7)	—	(9)	—	—	—	(9)
Income (loss) before income taxes	(28)	31	(38)	8	(27)	(42)	(42)	79	(32)
Income tax benefit (expense)	(9)	(8)	(1)	9	(9)	—	—	—	(9)
Net income (loss)	(37)	23	(39)	17	(36)	(42)	(42)	79	(41)
Less: income attributable to noncontrolling interest	—	—	(1)	—	(1)	—	—	—	(1)
Net income (loss) attributable to Warner Music Group Corp.	$(37)	$ 23	$ (40)	$ 17	$ (37)	$ (42)	$ (42)	$ 79	$ (42)

Consolidating Statement of Operations

For The Three Months Ended December 31, 2013

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Revenues	$—	$ 356	$ 511	$ (52)	$ 815	$ —	$ —	$ —	$ 815
Costs and expenses:									
Cost of revenue	$—	$ (155)	$ (335)	$ 49	$ (441)	$ —	$ —	$ —	$ (441)
Selling, general and administrative expenses	—	(115)	(181)	3	(293)	—	—	—	(293)
Amortization of intangible assets	—	(30)	(36)	—	(66)	—	—	—	(66)
Total costs and expenses	—	(300)	(552)	52	(800)	—	—	—	(800)
Operating income (loss)	—	56	(41)	—	15	—	—	—	15
Interest income (expense), net	(31)	1	(20)	—	(50)	(5)	—	—	(55)
Equity gains (losses) from consolidated subsidiaries	(21)	5	—	16	—	(32)	(37)	69	—
Other income (expense), net	12	(14)	(2)	—	(4)	—	—	—	(4)
Income (loss) before income taxes	(40)	48	(63)	16	(39)	(37)	(37)	69	(44)
Income tax benefit (expense)	8	(4)	7	(3)	8	—	—	—	8
Net income (loss)	(32)	44	(56)	13	(31)	(37)	(37)	69	(36)
Less: income attributable to noncontrolling interest	—	—	(1)	—	(1)	—	—	—	(1)
Net income (loss) attributable to Warner Music Group Corp.	$(32)	$ 44	$ (57)	$ 13	$ (32)	$ (37)	$ (37)	$ 69	$ (37)

22

Consolidating Statement of Comprehensive Income

For The Three Months Ended December 31, 2014

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net (loss) income	$(37)	$ 23	$ (39)	$ 17	$ (36)	$ (42)	$ (42)	$ 79	$ (41)
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	(34)	—	(34)	34	(34)	(34)	(34)	68	(34)
Other comprehensive income (loss), net of tax:	(34)	—	(34)	34	(34)	(34)	(34)	68	(34)
Total comprehensive (loss) income	(71)	23	(73)	51	(70)	(76)	(76)	147	(75)
Less: income attributable to noncontrolling interest	—	—	(1)	—	(1)	—	—	—	(1)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$(71)	$ 23	$ (74)	$ 51	$ (71)	$ (76)	$ (76)	$ 147	$ (76)

Consolidating Statement of Comprehensive Income

For The Three Months Ended December 31, 2013

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net (loss) income	$(32)	$ 44	$ (56)	$ 13	$ (31)	$ (37)	$ (37)	$ 69	$ (36)
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	(8)		(8)	8	(8)	(8)	(8)	16	(8)
Other comprehensive income (loss), net of tax:	(8)	—	(8)	8	(8)	(8)	(8)	16	(8)
Total comprehensive (loss) income	(40)	44	(64)	21	(39)	(45)	(45)	85	(44)
Less: income attributable to noncontrolling interest	—	—	(1)	—	(1)	—	—	—	(1)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$(40)	$ 44	$ (65)	$ 21	$ (40)	$ (45)	$ (45)	$ 85	$ (45)

24

Consolidating Statement of Cash Flows

For The Three Months Ended December 31, 2014

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Cash flows from operating activities									
Net (loss) income	$(37)	$ 23	$ (39)	$ 17	$ (36)	$ (42)	$ (42)	$ 79	$ (41)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:									
Depreciation and amortization	—	41	38	—	79	—	—	—	79
Unrealized gains/losses and remeasurement of foreign denominated loans	(9)	—	23	—	14	—	—	—	14
Deferred income taxes	—	—	—	—	—	—	—	—	—
Non-cash interest expense	2	—	—	—	2	—	—	—	2
Non-cash share-based compensation expense	—	—	—	—	—	—	—	—	—
Equity losses (gains), including distributions	6	2	—	(8)	—	37	42	(79)	—
Changes in operating assets and liabilities:	—	—	—	—	—	—	—	—	—
Accounts receivable	—	38	(105)	—	(67)	—	—	—	(67)
Inventories	—	1	(2)	—	(1)	—	—	—	(1)
Royalty advances	—	2	(9)	—	(7)	—	—	—	(7)
Accounts payable and accrued liabilities	—	(10)	(37)	—	(47)	—	—	—	(47)
Royalty payables	—	(37)	83	—	46	—	—	—	46
Accrued interest	(7)	—	—	—	(7)	(5)	—	—	(12)
Deferred revenue	—	19	20	—	39	—	—	—	39
Other balance sheet changes	(1)	4	36	(9)	30	—	—	—	30
Net cash provided by (used in) operating activities	(46)	83	8	—	45	(10)	—	—	35
Cash flows from investing activities									
Acquisition of music publishing rights, net	—	(4)	(1)	—	(5)	—	—	—	(5)
Capital expenditures	—	(18)	(6)	—	(24)	—	—	—	(24)
	—	(6)	(2)	—	(8)	—	—	—	(8)

Investments and acquisitions of businesses, net									
Advances to issuer	59	—	—	(59)	—	—	—	—	—
Net cash provided by (used in) investing activities	59	(28)	(9)	(59)	(37)	—	—	—	(37)
Cash flows from financing activities									
Dividend by Acquisition Corp. to Holdings Corp.	(10)	—	—	—	(10)	10	—	—	—
Proceeds from the Revolving Credit Facility	100	—	—	—	100	—	—	—	100
Repayment of the Revolving Credit Facility	(100)	—	—	—	(100)	—	—	—	(100)
Repayment of Acquisition Corp. Senior Term Loan Facility	(3)	—	—	—	(3)	—	—	—	(3)
Distribution to noncontrolling interest holder	—	—	—	—	—	—	—	—	—
Change in due to (from) issuer	—	(59)	—	59	—	—	—	—	—
Net cash provided by (used in) financing activities	(13)	(59)	—	59	(13)	10	—	—	(3)
Effect of exchange rate changes on cash and equivalents	—	—	(7)	—	(7)	—	—	—	(7)
Net increase (decrease) in cash and equivalents	—	(4)	(8)	—	(12)	—	—	—	(12)
Cash and equivalents at beginning of period	—	26	131	—	157	—	—	—	157
Cash and equivalents at end of period	$—	$ 22	$ 123	$ —	$ 145	$ —	$ —	$ —	$ 145

Consolidating Statement of Cash Flows

For The Three Months Ended December 31, 2013

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Cash flows from operating activities									
Net (loss) income	$(32)	$ 44	$ (56)	$ 13	$ (31)	$ (37)	$ (37)	$ 69	$ (36)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:									
Depreciation and amortization	—	38	40	—	78	—	—	—	78
Unrealized gains/losses and remeasurement of foreign denominated loans	3	(8)	(15)	—	(20)	—	—	—	(20)
Deferred income taxes	—	—	(16)	—	(16)	—	—	—	(16)
Non-cash interest expense	4	—	—	—	4	—	—	—	4
Non-cash share-based compensation expense	—	3	—	—	3	—	—	—	3
Equity losses (gains), including distributions	21	(5)	—	(16)	—	32	37	(69)	—
Changes in operating assets and liabilities:									
Accounts receivable	—	2	(58)	—	(56)	—	—	—	(56)
Inventories	—	1	(2)	—	(1)	—	—	—	(1)
Royalty advances	—	2	(37)	—	(35)	—	—	—	(35)
Accounts payable and accrued liabilities	—	(109)	51	(21)	(79)	—	—	—	(79)
Royalty payables	—	(56)	112	—	56	—	—	—	56
Accrued interest	(12)	—	—	—	(12)	(5)	—	—	(17)
Deferred revenue	—	60	—	—	60	—	—	—	60
Other balance sheet changes	—	9	(26)	24	7	—	—	—	7
Net cash provided by (used in) operating activities	(16)	(19)	(7)	—	(42)	(10)	—	—	(52)
Cash flows from investing activities									
Acquisition of music publishing rights, net	—	(6)	(4)	—	(10)				