Warner Music Group Corp.
Form 10-Q
May 08, 2014

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, 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.)

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 ¨ 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 May 8, 2014 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.

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ITEM 1. FINANCIAL STATEMENTS
Warner Music Group Corp.

Consolidated Balance Sheets (Unaudited)

	March 31, 2014	September 30, 2013
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$149	$ 155
Accounts receivable, less allowances of $57 and $55 million	394	511
Inventories	35	33
Royalty advances expected to be recouped within one year	103	93
Deferred tax assets	43	43
Prepaid and other current assets	84	59
Total current assets	808	894
Royalty advances expected to be recouped after one year	191	173
Property, plant and equipment, net	187	180
Goodwill	1,679	1,668
Intangible assets subject to amortization, net	3,031	3,107
Intangible assets not subject to amortization	120	120
Other assets	114	110
Total assets	$6,130	$ 6,252
Liabilities and Equity		
Current liabilities:		
Accounts payable	$210	$ 280
Accrued royalties	1,140	1,147
Accrued liabilities	272	321
Accrued interest	75	75
Deferred revenue	263	139
Current portion of long-term debt	13	13
Other current liabilities	10	25
Total current liabilities	1,983	2,000
Long-term debt	2,856	2,854
Deferred tax liabilities, net	416	439
Other noncurrent liabilities	234	216
Total liabilities	$5,489	$ 5,509
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	(438)	(341)
Accumulated other comprehensive loss, net	(67)	(61)
Total Warner Music Group Corp. equity	$623	$ 726
Noncontrolling interest	18	17
Total equity	641	743

Total liabilities and equity	$6,130	$ 6,252

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
	(in millions)			
Revenues	$653	$675	$1,468	$1,444
Costs and expenses:				
Cost of revenues	(319)	(327)	(760)	(734)
Selling, general and administrative expenses (a)	(273)	(244)	(566)	(507)
Amortization of intangible assets	(66)	(47)	(132)	(95)
Total costs and expenses	(658)	(618)	(1,458)	(1,336)
Operating (loss) income	(5)	57	10	108
Loss on extinguishment of debt	—	—	—	(83)
Interest expense, net	(54)	(49)	(109)	(102)
Other expense, net	(3)	(4)	(7)	(9)
(Loss) income before income taxes	(62)	4	(106)	(86)
Income tax benefit	3	—	11	11
Net (loss) income	(59)	4	(95)	(75)
Less: income attributable to noncontrolling interest	(1)	(2)	(2)	(3)
Net (loss) income attributable to Warner Music Group Corp.	$(60)	$2	$(97)	$(78)

(a) Includes depreciation expense of:	$(13)	$(12)	$(25)	$(25)

See accompanying notes

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Warner Music Group Corp.

Consolidated Statement of Comprehensive Loss (Unaudited)

	Three Months Ended March 31,		Six Months Ended March 31,	
	2014	2013	2014	2013
	(in millions)			
Net (loss) income	$ (59)	$ 4	$ (95)	$ (75)
Other comprehensive income (loss), net of tax:				
Foreign currency adjustment	2	(14)	(6)	(12)
Other comprehensive income (loss), net of tax:	2	(14)	(6)	(12)
Total comprehensive loss	(57)	(10)	(101)	(87)
Less: comprehensive income attributable to noncontrolling interest	(1)	(2)	(2)	(3)
Comprehensive loss attributable to Warner Music Group Corp.	$ (58)	$ (12)	$ (103)	$ (90)

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended March 31, 2014	Six Months Ended March 31, 2013
	(in millions)	
Cash flows from operating activities		
Net loss	$ (95)	$ (75)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss on extinguishment of debt	—	83
Depreciation and amortization	157	120
Deferred income taxes	(23)	(12)
Non-cash interest expense	8	6
Non-cash share-based compensation expense	3	4
Changes in operating assets and liabilities:		
Accounts receivable	118	64
Inventories	(2)	2
Royalty advances	(28)	(10)
Accounts payable and accrued liabilities	(121)	(74)
Royalty payables	(9)	12
Accrued interest	—	(13)
Deferred revenue	128	46
Other balance sheet changes	(57)	(28)
Net cash provided by operating activities	79	125
Cash flows from investing activities		
Acquisition of music publishing rights	(19)	(11)
Investments and acquisitions of businesses	(26)	(5)
Capital expenditures	(30)	(13)
Net cash used in investing activities	(75)	(29)
Cash flows from financing activities		
Proceeds from the Revolving Credit Facility	230	31
Repayment of the Revolving Credit Facility	(230)	(31)
Proceeds from issuance of Acquisition Corp 6.00% Senior Secured Notes	—	500
Proceeds from issuance of Acquisition Corp 6.25% Senior Secured Notes	—	227
Proceeds from Acquisition Corp Senior Term Loan Facility	—	594
Repayment of Acquisition Corp 9.5% Senior Secured Notes	—	(1,250)
Financing costs paid	—	(127)
Deferred financing costs paid	—	(33)
Amortization of Senior Term Loan Facility	(3)	(8)
Repayment of capital lease obligations	(1)	—
Distributions to noncontrolling interest holder	(1)	—
Net cash used in financing activities	(5)	(97)
Effect of exchange rate changes on cash and equivalents	(5)	(7)
Net decrease in cash and equivalents	(6)	(8)
Cash and equivalents at beginning of period	155	302

Cash and equivalents at end of period	$149	$ 294

See accompanying notes

Warner Music Group Corp.

Consolidated Statement of Equity (Unaudited)

	Common Stock					Total		
			Additional		Accumulated Other	Warner Music Group		
			Paid-in	Accumulated	Comprehensive	Corp.	Noncontrolling	Total
	Shares	Value	Capital	Deficit	Loss	Equity	Interest	Equity
	(in millions, except per share amounts)							
Balance at September 30, 2013	1,055	$0.001	$ 1,128	$ (341)	$ (61)	$ 726	$ 17	$ 743
Net (loss) income	—	—	—	(97)	—	(97)	2	(95)
Other comprehensive loss, net of tax	—	—	—	—	(6)	(6)	—	(6)
Distribution to noncontrolling interest	—	—	—	—	—	—	(1)	(1)
Balance at March 31, 2014	1,055	$0.001	$ 1,128	$ (438)	$ (67)	$ 623	$ 18	$ 641

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 listing on 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 instruments covering its outstanding indebtedness.

Acquisition of Parlophone Label Group

On July 1, 2013, the Company completed its acquisition of Parlophone Label Group. See Note 4 for a further discussion.

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, 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 in the U.S., Alternative Distribution Alliance ("ADA"), which distributes the products of independent labels to retail and wholesale distributors in the U.S.; various distribution centers and ventures operated internationally, an 80% interest in Word, which specializes in the distribution of music products in the Christian retail marketplace, and the Company's worldwide artist and label-services organization, including ADA Worldwide, which provides distribution services outside of the U.S. through a network of affiliated and non-affiliated distributors.

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 and Spotify, 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 & 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

Where 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. Since 2012, Warner/Chappell has been making an effort to augment its film and TV music business, with the acquisitions of certain songs and recordings from numerous critically acclaimed films and TV shows. These acquisitions will help Warner/Chappell take advantage of the higher margins and strong synchronization and performance income in the TV/film space. The Company's production music library business includes Non-Stop Music, Groove Addicts Production Music Library, Carlin Recorded Music Library and 615 Music, collectively branded as Warner/Chappell Production Music.

2. Basis of Presentation

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 and six month periods ended March 31, 2014 are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2014.

The consolidated balance sheet at September 30, 2013 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, 2013 (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 Friday nearest to each reporting date. As such, all references to March 31, 2014 and March 31, 2013 relate to the periods ended March 28, 2014 and March 29, 2013, respectively. For convenience purposes, the Company continues to date its financial statements as of March 31. All references to September 30, 2013 relate to the fiscal year ended on September 27, 2013. For convenience purposes, the Company continues to date its financial statements 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 other than described in Note 14, no additional disclosures are necessary.

New Accounting Pronouncements

During the first quarter of fiscal 2014, the Company simultaneously adopted Accounting Standards Updates ("ASU") 2011-11, Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11") and ASU 2013-01, Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities ("ASU 2013-01"). ASU 2011-11 and ASU 2013-01 require additional quantitative and qualitative disclosures over financial instruments and derivative instruments that are offset on the balance sheet or subject to master netting arrangements. The adoption of these standards did not have an impact on the Company's financial statements, other than disclosure.

During the first quarter of fiscal 2014, the Company adopted ASU 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income ("ASU 2013-02"). ASU 2013-02 requires entities to disclose, in one place, information about the amounts reclassified out of accumulated other comprehensive income by component. The adoption of this standard did not have an impact on the Company's financial statements, other than disclosure.

In July 2013, the FASB issued 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 attempts to eliminate diversity in practice by requiring 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. ASU 2013-11 is effective for annual and interim reporting periods for fiscal years beginning after December 15, 2013. The adoption of this standard is not expected to have a significant impact on the Company's financial statements, other than presentation.

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3. Comprehensive Income (Loss)

Comprehensive income (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 gains and losses, minimum pension liabilities, and deferred gains and losses on financial instruments designated as hedges under FASB ASC Topic 815, Derivatives and Hedging ("ASC 815"), which include foreign exchange contracts. 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	Deferred Gains (Losses) On Derivative Financial Instruments	Accumulated Other Comprehensive Loss, net
	(in millions)			
Balance at September 30, 2013	$(57)	$ (4)	$ —	$ (61)
Other comprehensive loss (a)	(6)	—	—	(6)
Amounts reclassified from accumulated other comprehensive income	—	—	—	—
Balance at March 31, 2014	$(63)	$ (4)	$ —	$ (67)

(a) Foreign currency translation adjustments include a gain on intra-entity foreign currency transactions that are of a long-term investment nature of $2 million.

4. Acquisition of Parlophone Label Group

On February 6, 2013, the Company signed a definitive agreement to acquire 100% of the shares of the Parlophone Label Group from Universal Music Group, a division of Vivendi, for £487 million, subject to a closing working capital adjustment, in an all-cash transaction (the "PLG Acquisition") pursuant to a Share Sale and Purchase Agreement (the "PLG Agreement") by and among Warner Music Holdings Limited, an English company and wholly-owned subsidiary of the Company ("WM Holdings UK"), certain related entities identified in the PLG Agreement (such entities, together with WM Holdings UK, the "Buyers"), Acquisition Corp., as Buyers' Guarantor, and EGH1 BV, a Dutch company, EMI Group Holdings BV, a Dutch company, and Delta Holdings BV, a Dutch company, as Sellers (as defined therein) (collectively, the "PLG Sellers"), and Universal International Music BV, a Dutch company, as Sellers' Guarantor (as defined therein), pursuant to which the PLG Sellers agreed to sell, and the Buyers agreed to buy, the outstanding shares of capital stock of PLG Holdco Limited, an English company ("PLG Holdco") and certain related entities identified in the PLG Agreement (such entities, together with PLG Holdco, "PLG").

On June 28, 2013, the parties to the PLG Agreement entered into a Deed of Variation, resulting in an Amended and Restated Share Sale and Purchase Agreement (the "PLG Amended Agreement"). The PLG Amended Agreement provided for, among other amendments, a revision to the definition of "Aggregate Payments" to increase this amount from the consideration paid for the outstanding shares of capital stock in PLG Holdco and certain related entities identified in the PLG Amended Agreement to an amount that reflects the entire purchase price. The adjustment to this definition results in a greater potential cap on liability for the PLG Sellers in connection with certain claims that may be brought under the PLG Amended Agreement.

On July 1, 2013, the Company completed the PLG Acquisition. In connection with the PLG Acquisition, the Company incurred $16 million in professional fees and integration costs during the three months ended March 31, 2014, $36 million during the six months ended March 31, 2014 and $38 million in professional fees and integration costs, as well as an $11 million fee under the Management Agreement (defined below), during the fiscal year ended September 30, 2013.

The PLG Acquisition was accounted for in accordance with FASB ASC Topic 805, Business Combination ("ASC 805"), using the acquisition method of accounting. The assets acquired and liabilities assumed in connection with the PLG Acquisition, including identifiable intangible assets, have been measured at their fair value primarily using Level 3 inputs (see Note 13 for additional information on fair value inputs). Determining the fair value of the assets acquired and liabilities assumed requires judgment and involved the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset useful lives and market multiples, among other items. The use of different estimates and judgments could yield materially different results.

The table below presents (i) the preliminary estimate of the PLG Acquisition consideration as it relates to the acquisition of PLG by the Buyers and (ii) the preliminary allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed on the closing date of July 1, 2013 (in millions):

Purchase Price	£487
Preliminary Working Capital Adjustment	13
Adjusted Purchase Price	£500
Foreign Exchange Rate at July 1, 2013	1.53
Adjusted Purchase Price in U.S. dollars	$765
Fair Value of assets acquired and liabilities assumed:	
Cash	46
Accounts receivable	80
Other current assets	8
Property, plant and equipment	39
Intangible assets	764
Accounts payable	(83)
Royalties payable	(147)
Other current liabilities	(21)
Deferred revenue	(25)
Deferred tax liabilities	(139)
Other noncurrent liabilities *	(27)
Fair value of net assets acquired	495
Goodwill recorded *	270
Total purchase price allocated	$765

* Amounts have been adjusted in the first quarter of fiscal 2014 based on new information obtained during the measurement period.

The excess of the purchase price, over the fair value of net assets acquired, including the amount assigned to identifiable intangible assets and deferred tax adjustments, has been recorded to goodwill. The goodwill recorded as part of the PLG Acquisition reflects the expected value to be generated from the continuing transition of the music industry and the expected resulting cost savings; cost and revenue synergies to be realized; as well as any intangible assets that do not qualify for separate recognition. The resulting goodwill has been allocated to our Recorded Music reportable segment. The Company does not expect the goodwill recognized to be deductible for income tax purposes. Any impairment charges made in future periods associated with goodwill will not be tax deductible.

The final allocation of the purchase price is pending determination of the final consideration, including the determination of the final working capital adjustment pursuant to the mechanism set forth in the PLG Agreement.

The components of the intangible assets identified in the table above and the related useful lives, allocated to the Company's Recorded Music reportable segment, are as follows:

	Value (in millions)	Useful Life
Trademark and trade name	$ 17	Indefinite
Catalog	442	13 years

Artist contracts	305	10 years

Pro Forma Financial Information (unaudited)

The following unaudited pro forma information has been presented as if the PLG Acquisition occurred on October 1, 2012. This information is based on historical results of operations, adjusted to give effect to pro forma events that are (i) directly attributable to the PLG Acquisition; (ii) factually supportable; and (iii) expected to have a continuing impact on the Company's combined results. Additionally, certain pro forma adjustments have been made to the historical results of PLG in order to (i) convert them to U.S. GAAP; (ii) conform their accounting policies to those applied by the Company; (iii) present them in U.S. dollars; (iv) align accounting periods; and (v) eliminate revenue and expenses and related assets and liabilities for international licensing agreements to sell repertoire owned by non acquired entities that have been terminated as a result of the PLG Acquisition and excluded assets not acquired by the Company. The unaudited pro forma results do not reflect the realization of any cost savings as a result of restructuring activities and other cost savings initiatives planned subsequent to the PLG Acquisition or the related estimated restructuring charges contemplated in association with any such expected cost savings. Such charges will be expensed in the appropriate accounting periods. The unaudited pro forma results for the three and six months ended March 31, 2013 includes the licensing income remitted to the repertoire owner by the selling territory, but does not reflect the licensing fee retained and related direct costs incurred by the selling territory. For the three and six months ended March 31, 2014, where the Company is the selling territory, the licensing fee and direct costs are included in our consolidated results.

The pro forma information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the PLG Acquisition had taken place at the beginning of fiscal 2013.

	Three Months Ended March 31, 2013	Six Months Ended March 31, 2013
	(in millions)	
Revenue	$ 727	$ 1,633
Operating income	43	97
Net loss attributable to Warner Music Group Corp.	(38)	(104)

Actual results related to PLG included in the Consolidated Statements of Operations for the three and six months ended March 31, 2014 consist of revenues of $72 million and $146 million, respectively and operating loss of $35 million and $58 million, respectively. Actual results for the three and six months ended March 31, 2014 include professional fees and integration costs of $16 million and $36 million, respectively and restructuring costs of $17 million and $24 million, respectively, associated with the PLG Acquisition. The results related to PLG included in the above results for the three and six months ended March 31, 2013 consist of revenues of $52 million and $189 million, respectively and operating loss of $14 million and $11 million, respectively.

5. Goodwill and Intangible Assets

Goodwill

The following summary sets forth the changes in goodwill for each reportable segment during the six months ended March 31, 2014:

	Recorded Music	Music Publishing	Total
	(in millions)		
Balance at September 30, 2013	$1,204	$ 464	$1,668
Acquisitions	7	—	7
Dispositions	—	—	—
Other adjustments	4	—	4
Balance at March 31, 2014	$1,215	$ 464	$1,679

Acquisitions during the six months ended March 31, 2014 represent an adjustment to preliminary amounts recorded in the prior period as a result of the PLG Acquisition based on new information obtained during the measurement period.

Other adjustments during the six months ended March 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. 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.

Other Intangible Assets

Other intangible assets consisted of the following:

	Weighted Average Useful Life	March 31, 2014	September 30, 2013
		(in millions)	
Intangible assets subject to amortization:			
Recorded music catalog	11 years	$1,023	$ 1,006
Music publishing copyrights	28 years	1,577	1,546
Artist and songwriter contracts	13 years	993	983
Trademarks	7 years	7	7
		3,600	3,542
Accumulated amortization		(569)	(435)
Total net intangible assets subject to amortization		3,031	3,107
Intangible assets not subject to amortization:			
Trademarks and tradenames	Indefinite	120	120
Total net other intangible assets		$3,151	$ 3,227

6. Debt

Debt Capitalization

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

	March 31, 2014	September 30, 2013
	(in millions)	
Revolving Credit Facility (a)	—	—
Term Loan Facility due 2020—Acquisition Corp. (b)	1,300	1,303
6.00% Senior Secured Notes due 2021—Acquisition Corp.	450	450
6.25% Senior Secured Notes due 2021—Acquisition Corp. (c)	217	213
11.5% Senior Notes due 2018—Acquisition Corp. (d)	752	751
13.75% Senior Notes due 2019—Holdings	150	150
Total debt	$2,869	$ 2,867
Less: current portion	13	13
Total long-term debt	$2,856	$ 2,854

(a) Reflects $150 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $11 million and $1 million at March 31, 2014 and September 30, 2013, respectively. There were no loans outstanding under the Revolving Credit Facility at March 31, 2014 or September 30, 2013.

(b) Principal amount of $1.307 billion less unamortized discount of $7 million at March 31, 2014. Principal amount of $1.310 billion less unamortized discount of $7 million at September 30, 2013. Of this amount, $13 million at both March 31, 2014 and September 30, 2013, representing the scheduled amortization, was included in the current portion of long term debt.

(c) Face amount of €158 million. Amounts above represent the dollar equivalent of such notes at March 31, 2014 and September 30, 2013.

(d) Face amount of $765 million less unamortized discounts of $13 million and $14 million at March 31, 2014 and September 30, 2013, respectively. The Company refinanced the $765 million of 11.5% Senior Notes due 2018 as part of the 2014 Refinancing. Refer to Note 14, Subsequent Events.

2012 Debt Refinancing

On November 1, 2012, the Company completed a refinancing (the "2012 Refinancing") of its then outstanding senior secured notes due 2016. In connection with the 2012 Refinancing, the Company issued new senior secured notes consisting of $500 million aggregate principal amount of 6.00% Senior Secured Notes due 2021 ("the Dollar Notes") and €175 million aggregate principal amount of 6.25% Senior Secured Notes due 2021 (the "Euro Notes" and together with the Dollar Notes, the "Existing Senior Secured Notes") and entered into new senior secured credit facilities consisting of a $600 million term loan facility (the "Senior Term Loan Facility") and a $150 million revolving credit facility (the "Revolving Credit Facility" and, together with the Senior Term Loan Facility, the "Senior Credit Facilities"). Acquisition Corp. is the borrower under the Revolving Credit Facility (the "Revolving

Borrower") and under the Senior Term Loan Facility (the "Term Loan Borrower"). The proceeds from the 2012 Refinancing, together with $101 million of the Company's available cash, were used to pay the total consideration due in connection with the tender offers for all of the Company's previously outstanding $1.250 billion 9.50% senior secured notes due 2016 (the "Old Secured Notes") as well as associated fees and expenses and to redeem all of the remaining notes not tendered in the tender offers. The Company also retired its existing $60 million revolving credit facility (the "Old Revolving Credit Facility") in connection with the 2012 Refinancing, replacing it with the Revolving Credit Facility. The Company also borrowed $31 million under the Revolving Credit Facility as part of the 2012 Refinancing, which loans were repaid in full on December 3, 2012.

In connection with the 2012 Refinancing, the Company made a redemption payment of $1.377 billion, which included the repayment of the Company's previously outstanding $1.250 billion Old Secured Notes, tender/call premiums of $93 million and consent fees of approximately $34 million. The Company also paid approximately $45 million in accrued interest through the closing date.

The Company recorded a loss on extinguishment of debt of approximately $83 million in connection with the 2012 Refinancing in the fiscal year ended September 30, 2013, which represents the difference between the redemption payment and the carrying value of the debt at the refinancing date, which included the principal value of $1.250 billion, plus unamortized premiums of $55 million, less unamortized debt issuance costs of $11 million related to the Old Secured Notes.

Modification of Term Loan Facility and Drawdown of Incremental Term Loan Facility

On May 9, 2013, Acquisition Corp. prepaid $102.5 million in aggregate principal amount of term loans under the Senior Term Loan Facility (the "Term Loan Repayment"). Also on May 9, 2013, the Term Loan Borrower entered into an amendment to the Senior Term Loan Facility among the Term Loan Borrower, Holdings, the subsidiaries of the Term Loan Borrower party thereto, Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto, providing for the refinancing of the then outstanding term loan and for a $820 million senior secured incremental term loan facility (the "Incremental Term Loan Facility"). As part of the amendment to the Senior Term Loan Facility, the interest rate, maturity date, and scheduled amortization were changed. On July 1, 2013, Acquisition Corp. drew down the $820 million Incremental Term Loan Facility to fund the PLG Acquisition, pay fees, costs and expenses related to the PLG Acquisition and for general corporate purposes of Acquisition Corp. and its subsidiaries. Currently, the Senior Term Loan Facility provides for term loans thereunder (the "Term Loans") in an amount of up to $1,310 million.

Debt Redemptions

On June 21, 2013, Acquisition Corp. redeemed 10% of its Senior Secured Notes due 2021, representing repayment of $50 million in aggregate principal amount of its outstanding 6.00% Senior Secured Notes due 2021 and €17.5 million in aggregate principal amount of its outstanding 6.25% Senior Secured Notes due 2021. The Company recorded a loss on extinguishment of debt of approximately $2 million in the fiscal year ended September 30, 2013, which represents the premium paid on early redemption.

2014 Debt Refinancing

On April 9, 2014, the Company completed a refinancing of part of its outstanding debt (the "2014 Refinancing"). As a result, the Company's debt following the 2014 Refinancing has increased from the amounts as of March 31, 2014. Refer to Note 14, Subsequent Events.

Interest Rates

The loans under the Revolving Credit Facility bear interest at Revolving Borrower'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 Term Loan Borrower'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 Credit Agreement 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 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 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 Revolving Credit Facility matures on November 1, 2017. On March 25, 2014, Acquisition Corp. received lender consent to an amendment to the credit agreement for its Revolving Credit Facility. The amendment became effective on April 9, 2014 and extended the maturity date of the Revolving Credit Facility to April 1, 2019. Refer to Note 14, Subsequent Events.

Maturities of Senior Notes and Senior Secured Notes

As of March 31, 2014, there are no scheduled maturities of notes until 2018, when $765 million is scheduled to mature. Thereafter, $817 million is scheduled to mature. The Company refinanced the $765 million of 11.5% Senior Notes due 2018 as part of the 2014 Refinancing. Refer to Note 14, Subsequent Events.

Interest Expense, net

Total interest expense, net was $54 million and $49 million for the three months ended March 31, 2014 and March 31, 2013, respectively. Total interest expense, net was $109 million and $102 million for the six months ended March 31, 2014 and March 31, 2013, respectively. The weighted-average interest rate of the Company’s total debt was 6.9% at March 31, 2014 and 8.3% at March 31, 2013.

7. 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 $86 million in restructuring charges, currently estimated to be made up of employee-related costs of $78 million, real estate costs of $7 million and other costs of $1 million. Total restructuring costs of $17 million were incurred in the three months ended March 31, 2014 with respect to these actions, which consist of $15 million of employee-related costs, $1 million of real estate costs and $1 million of other costs. Total restructuring costs of $24 million were incurred in the six months ended March 31, 2014 with respect to these actions, which consist of $22 million of employee-related costs, $1 million of real estate costs and $1 million of other costs. Total costs to date under the Restructuring Plan are $46 million, including total cash payments of $31 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, 2013	$ 10	$ —	$ —	$ 10
Restructuring expense	22	1	1	24
Cash Payments	(17)	(1)	(1)	(19)
Balance at March 31, 2014	$ 15	$ —	$ —	$ 15

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 statement of operations resulting from the Restructuring Plan is shown below:

	Three months ended March 31, 2014	Six months ended March 31, 2014
	(in millions)	
Selling, general and administrative expense	$ 17	$ 24
Total restructuring expense	$ 17	$ 24

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

8. Share-Based Compensation Plans

Effective January 1, 2013, eligible individuals were invited to participate in the Senior Management Free Cash Flow Plan (the “Plan”). Eligible individuals include any employee, consultant or officer of the Company or any of its affiliates who is selected by the Company’s Compensation Committee to participate in the Plan. Under the Plan, participants are allocated a specific portion of the Company’s free cash flow to use to purchase the equivalent of Company stock through the acquisition of deferred equity units. Participants also receive a grant of profit interests in a purposely established LLC holding company (the “LLC”) that represent an economic entitlement to future appreciation over an equivalent number of shares of Company stock (“matching units”). The Company’s Board of Directors authorized the issuance of up to 82.1918 shares of the Company’s common stock pursuant to the Plan, 41.0959 in respect of deferred equity units and 41.0959 in respect of matching units. The LLC currently owns 55 issued and outstanding shares. Each deferred equity unit is equivalent to 1/10,000 of a share of Company stock. The Company will allocate units to active participants each Plan year at the time that annual free cash flow bonuses for such Plan year are determined and may grant unallocated units under the Plan to certain members of current or future management. At the time that annual free cash flow bonuses for such Plan year are determined, a participant shall be credited a number of deferred equity units based on their respective allocation divided by $107.13 (the grant date intrinsic value) and an equal number of the related matching units will be allocated. The redemption price of the deferred equity units will equal the fair market value of a fractional share of the Company’s stock on the date of the settlement and the redemption price for the matching units will equal the excess, if any, of the then fair market value of one Company fractional share over the grant date intrinsic value of one fractional share.

The Company accounts for share-based payments as required by FASB ASC Topic 718, Compensation-Stock Compensation (“ASC 718”). ASC 718 requires all share-based payments to employees to be recognized as compensation expense. Under the recognition provision of ASC 718, liability classified share-based compensation costs are measured each reporting date until settlement. The Company’s policy is to measure share-based compensation costs using the intrinsic value method instead of fair value as it is not practical to estimate the volatility of its share price.

For accounting purposes, the grant date was established at the point the Company and the participant reached a mutual understanding of the key terms and conditions, in this case the date at which the participant accepted the invitation to participate in or increase their allocation in the Plan. For accounting purposes, deferred equity units are deemed to generally vest between one and seven years and matching equity units granted under the Plan are deemed to vest two years after the allocation to the participant’s account. All deferred and matching equity units will be settled in three installments in December 2018, 2019, and 2020. The deferred units will be settled at the participant’s election for cash equal to the fair market value or one fractional company share. The matching units will be settled for cash equal to the redemption price. In December 2020, all outstanding units become mandatorily redeemable at the then redemption price. Due to this mandatory redemption clause, the Company has classified the awards under the Plan as liability awards. Dividend distributions, if any, are also paid out on vested deferred equity units and are calculated on the same basis as the Company's common shares. The Company has applied a graded (tranche-by-tranche) attribution method and expenses share-based compensation on an accelerated basis over the vesting period of the share award.

The following is a summary of the Company's share awards for the six months ended March 31, 2014:

	Deferred Equity Units	Matching Equity Units	Deferred Equity Units Weighted-Average Fair Value	Matching Equity Units Weighted-Average Intrinsic Value	Deferred Equity Units Weighted-Average Grant-Date Intrinsic Value	Matching Equity Units Weighted-Average Grant-Date Intrinsic Value
Unvested units at September 30, 2013	24	24	$ 134.62	$ 27.49	$ 107.13	$ —
Granted	2	2	134.62	—	107.13	—
Vested	(5)	—	134.62	27.49	107.13	—
Forfeited	(1)	(1)	134.62	27.49	107.13	—
Unvested units at March 31, 2014	20	25	134.62	25.20	107.13	—

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The weighted-average grant date intrinsic value of deferred equity unit awards for the six months ended March 31, 2014 was $107.13. The fair value of these deferred equity units at March 31, 2014 was $134.62.

Compensation Expense

The Company did not recognize a material amount of non-cash compensation expense related to its share-based compensation plan for the three months ended March 31, 2014. The Company recognized non-cash compensation expense related to its share-based compensation plan of $4 million for the three months ended March 31, 2013. Of the $4 million for the three months ended March 31, 2013, $3 million related to awards for employees and $1 million related to awards for non-employees. The Company recognized non-cash compensation expense related to its share-based compensation plan of $3 million and $4 million for the six months ended March 31, 2014 and March 31, 2013, respectively. Of the $3 million for the six months ended March 31, 2014, $2 million related to awards for employees and $1 million related to awards for non-employees. Of the $4 million for the six months ended March 31, 2013, $3 million related to awards for employees and $1 million related to awards for non-employees.

In addition, as of March 31, 2014, the Company had approximately $15 million of unrecognized compensation costs related to its unvested share awards. The remaining weighted average period over which total compensation related to unvested awards is expected to be recognized is 4 years.

9. 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 is due June 20, 2014. 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. 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. On January 23, 2014, the Court granted preliminary approval of the settlement. The hearing on final approval of the settlement is scheduled for October 2, 2014. Based on an evaluation of potential outcomes of these claims that are reasonably possible and an estimate of the reasonably possible loss or range of loss possible, 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.

10. Derivative Financial Instruments

The Company uses derivative financial instruments, primarily foreign currency forward exchange contracts, for the purpose of managing foreign currency exchange risk by reducing the effects of fluctuations in foreign currency exchange rates.

The Company enters into foreign currency forward exchange contracts primarily to hedge the risk that unremitted or future royalties and license fees owed to its domestic companies for the sale, or anticipated sale, of U.S.-copyrighted products abroad may be adversely affected by changes in foreign currency exchange rates. The Company focuses on managing the level of exposure to the risk of foreign currency exchange rate fluctuations on its major currencies, which include the Euro, British pound sterling, Japanese yen, Canadian dollar, Swedish krona and Australian dollar. The foreign currency forward exchange contracts related to royalties are designated and qualify as cash flow hedges under the criteria prescribed in ASC 815. The Company records these contracts at fair value on its balance sheet and gains or losses on these contracts are deferred in equity (as a component of comprehensive loss). These deferred gains and losses are recognized in income in the period in which the related royalties and license fees being hedged are received and recognized in income. However, to the extent that any of these contracts are not considered to be perfectly effective in offsetting the change in the value of the royalties and license fees being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in income.

The Company also hedges foreign currency risk associated with financing transactions such as third-party and intercompany debt and other balance sheet items. The foreign currency forward exchange contracts related to balance sheet items denominated in foreign currency are reviewed on a contract-by-contract basis and are designated accordingly. If these foreign currency forward exchange contracts do not qualify for hedge accounting, then the Company records these contracts at fair value on its balance sheet and the related gains and losses are immediately recognized in the statement of operations where there is an equal and offsetting entry related to the underlying exposure.

The fair value of foreign currency forward exchange contracts is determined by using observable market transactions of spot and forward rates (i.e., Level 2 inputs) which is discussed further in Note 13. Additionally, netting provisions are provided for in existing International Swap and Derivative Association Inc. agreements in situations where the Company executes multiple contracts with the same counterparty. As a result, net assets or liabilities resulting from foreign exchange derivatives subject to these netting agreements are classified within other current assets or other current liabilities in the Company’s consolidated balance sheets.

The Company monitors its positions with, and the credit quality of, the financial institutions that are party to any of its financial transactions.

As of March 31, 2014, the Company had outstanding hedge contracts for the sale of $123 million and the purchase of $99 million of foreign currencies at fixed rates. As of March 31, 2014, the Company had no deferred gains or losses in comprehensive loss related to foreign exchange hedging. As of September 30, 2013, the Company had outstanding hedge contracts for the sale of $1.044 billion and the purchase of $249 million of foreign currencies at fixed rates. As of September 30, 2013, the Company had no deferred gains or losses in comprehensive loss related to foreign exchange hedging.

The following is a summary of amounts recorded in the Consolidated Balance Sheet pertaining to the Company's use of foreign currency derivatives at March 31, 2014 and September 30, 2013:

	March 31, 2014[(a)]	September 30, 2013[(b)]
	(in millions)	
Other current assets	$ —	$ 1
Other current liabilities	(2)	(23)

(a) Includes $1 million and $3 million of foreign exchange derivative contracts in asset and liability positions, respectively.

(b) Includes $5 million and $27 million of foreign exchange derivative contracts in asset and liability positions, respectively.

11. 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, 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 in the Company's Annual Report on Form 10-K for the fiscal year ended September 30, 2013. 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. Segment information consisted of the following:

Three Months Ended	Total

	Recorded Music	Music Publishing	Corporate expenses and eliminations	
	(in millions)			
March 31, 2014				
Revenues	$535	$ 122	$ (4)	$653
OIBDA	39	55	(20)	74
Depreciation of property, plant and equipment	(9)	(1)	(3)	(13)
Amortization of intangible assets	(49)	(17)	—	(66)
Operating income (loss)	$(19)	$ 37	$ (23)	$(5)
March 31, 2013				
Revenues	$554	$ 127	$ (6)	$675
OIBDA	86	53	(23)	116
Depreciation of property, plant and equipment	(9)	(1)	(2)	(12)
Amortization of intangible assets	(32)	(15)	—	(47)
Operating income (loss)	$45	$ 37	$ (25)	$57

Six Months Ended	Recorded Music (in millions)	Music Publishing	Corporate expenses and eliminations	Total
March 31, 2014				
Revenues	$1,226	$ 250	$ (8)	$1,468
OIBDA	132	74	(39)	167
Depreciation of property, plant and equipment	(17)	(2)	(6)	(25)
Amortization of intangible assets	(99)	(33)	—	(132)
Operating income (loss)	$16	$ 39	$ (45)	$10
March 31, 2013				
Revenues	$1,211	$ 243	$ (10)	$1,444
OIBDA	200	69	(41)	228
Depreciation of property, plant and equipment	(16)	(3)	(6)	(25)
Amortization of intangible assets	(65)	(30)	—	(95)
Operating income (loss)	$119	$ 36	$ (47)	$108

12. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $33 million and $10 million during the three months ended March 31, 2014 and March 31, 2013, respectively. The Company made interest payments of approximately $101 million and $110 million during the six months ended March 31, 2014 and March 31, 2013, respectively. The Company paid approximately $5 million and $3 million of income and withholding taxes, net of refunds, during the three months ended March 31, 2014 and March 31, 2013, respectively. The Company paid approximately $8 million of income and withholding taxes, net of refunds, during both the six months ended March 31, 2014 and March 31, 2013.

13. Fair Value Measurements

FASB ASC Topic 820, Fair Value Measurements and Disclosures (“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 March 31, 2014 and September 30, 2013.

	Fair Value Measurements as of March 31, 2014			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Assets:				
Foreign Currency Forward Exchange Contracts (a)	$ —	$ —	$ —	$ —
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	$ —	$ (2)	$ —	$ (2)
Other Current Liabilities:				
Contractual Obligations (b)	$ —	$ —	$ (4)	$ (4)
Other Non-Current Liabilities:				
Contractual Obligations (b)	$ —	$ —	$ (7)	$ (7)
Total	$ —	$ (2)	$ (11)	$ (13)

	Fair Value Measurements as of September 30, 2013			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Assets:				
Foreign Currency Forward Exchange Contracts (a)	$ —	$ 1	$ —	$ 1
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	$ —	$ (23)	$ —	$ (23)
Other Current Liabilities:				
Contractual Obligations (b)	$ —	$ —	$ (13)	$ (13)
Other Non-Current Liabilities:				
Contractual Obligations (b)	$ —	$ —	$ (9)	$ (9)
Total	$ —	$ (22)	$ (22)	$ (44)

(a) The fair value of the foreign currency forward exchange contracts is based on dealer quotes of market forward rates and reflects the amount that the Company would receive or pay at their maturity dates for contracts involving the same currencies and maturity dates.

(b) 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 liabilities classified as Level 3:

	Total
	(in millions)
Balance at September 30, 2013	$ 22
Additions	2

Payments		(13)
Balance at March 31, 2014	$	11

The decrease in net liabilities classified as Level 3 was primarily related to contingent consideration payments made during the period.

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

The Company had $2.889 billion of principal debt outstanding at March 31, 2014, of which $1.307 billion was variable rate debt and $1.582 billion was fixed rate debt. Based on the level of interest rates prevailing at March 31, 2014, the fair value of the Company's rate debt was approximately $3.052 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.

14. Subsequent Events

2014 Debt Refinancing

On April 9, 2014, the Company completed the 2014 Refinancing. In connection with the 2014 Refinancing, the Company issued $275 million in aggregate principal amount of its 5.625% Senior Secured Notes due 2022 (the "New Senior Secured Notes") and $660 million in aggregate principal amount of its 6.750% Senior Notes due 2022 (the "New Unsecured Notes"). In connection with the 2014 Refinancing, the Company used $869 million, to redeem or repurchase the Company's previously outstanding $765 million 11.5% Senior Notes due 2018 and to pay tender/call premiums of $85 million and consent fees of approximately $19 million. The Company also paid approximately $3 million in accrued interest with respect to the notes redeemed or repurchased.

The Company recorded a loss on extinguishment of debt of approximately $141 million in the third quarter of fiscal 2014, which represents the difference between the redemption payment and the carrying value of the debt, which included the principal value of $765 million, less unamortized discounts of $13 million and unamortized debt issuance costs of $24 million.

Had the consummation of the 2014 Refinancing occurred on March 31, 2014, the Company's total consolidated indebtedness as of March 31, 2014 would have been (in millions) (unaudited):

Revolving Credit Facility (a)	—
Term Loan Facility due 2020—Acquisition Corp. (b)	1,300
5.625% Senior Secured Notes due 2022—Acquisition Corp.	275
6.00% Senior Secured Notes due 2021—Acquisition Corp.	450
6.25% Senior Secured Notes due 2021—Acquisition Corp. (c)	217
6.75% Senior Notes due 2022—Acquisition Corp.	660
11.5% Senior Notes due 2018—Acquisition Corp.	—
13.75% Senior Notes due 2019—Holdings	150
Total debt	$3,052
Less: current portion	13
Total long-term debt	$3,039

(a) Reflects $150 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $11 million at March 31, 2014. There were no loans outstanding under the Revolving Credit Facility at March 31, 2014.

(b) Principal amount of $1.307 billion less unamortized discount of $7 million at March 31, 2014. Of this amount, $13 million at March 31, 2014, representing the scheduled amortization, was included in the current portion of long term debt.

(c) Face amount of €158 million. Amounts above represent the dollar equivalent of such notes at March 31, 2014.

Revolving Credit Agreement Amendment

On March 25, 2014, Acquisition Corp. received lender consent to an amendment (the "Revolving Credit Agreement Amendment") to the credit agreement for its Revolving Credit Facility. The effectiveness of the Revolving Credit Agreement Amendment was subject to certain conditions precedent, including the offering of the notes, and became effective on April 9, 2014. The Revolving Credit Agreement Amendment extends the maturity date of the Revolving Credit Facility to April 1, 2019 and modifies the maximum leverage ratio in certain periods.

New Debt

The following is a description of the Company's New Senior Secured Notes and New Unsecured Notes which are now outstanding following completion of the 2014 Refinancing.

New Senior Secured Notes

On April 9, 2014, Acquisition Corp. issued $275 million in aggregate principal amount of its 5.625% Senior Secured Notes due 2022 under the Base Indenture, among Acquisition Corp., the guarantors party thereto, Credit Suisse AG, as Notes Authorized Agent and Collateral Agent, and Wells Fargo Bank, National Association, as Trustee (the "Trustee"), as supplemented by the Fourth Supplemental Indenture, dated as of April 9, 2014 (the "New Secured Notes Supplemental Indenture" and, together with the Base Indenture, the "New Secured Notes Indenture"), among the Issuer, the guarantors party thereto and the Trustee.

Interest on the New Senior Secured Notes will accrue at the rate of 5.625% per annum and will be payable semi-annually in arrears on April 15 and October 15, commencing on October 15, 2014.

Ranking

The New Senior Secured Notes are Acquisition Corp.'s senior secured obligations and are secured on an equal and ratable basis with all existing and future indebtedness secured with the same security arrangements as the New Senior Secured Notes. The New Senior Secured Notes rank senior in right of payment to Acquisition Corp.'s subordinated indebtedness; rank equally in right of payment with all of Acquisition Corp.'s existing and future senior indebtedness, including the New Unsecured Notes (as defined below), the Existing Senior Secured Notes and indebtedness under the Senior Credit Facilities and any future senior secured credit facility; are effectively senior to Acquisition Corp.'s unsecured senior indebtedness, including the New Unsecured Notes, to the extent of the value of the collateral securing the New Senior Secured Notes; and are structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of Acquisition Corp.'s non-guarantor subsidiaries (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors (as such term is defined below)).

Guarantees

The New Senior Secured Notes are fully and unconditionally guaranteed on a senior secured basis by each of Acquisition Corp.'s existing direct or indirect wholly-owned domestic restricted subsidiaries and by any such subsidiaries that guarantee obligations of Acquisition Corp. under the Senior Credit Facilities, subject to customary exceptions. Such subsidiary guarantors are collectively referred to herein as the "subsidiary guarantors," and such subsidiary guarantees are collectively referred to herein as the "subsidiary guarantees." Each subsidiary guarantee is a senior secured obligation of such subsidiary guarantor and is secured on an equal and ratable basis with all existing and future obligations of such subsidiary guarantor that are secured with the same security arrangements as the guarantee of the New Senior Secured Notes (including the subsidiary guarantor's guarantee of obligations under the Existing Senior Secured Notes and the Senior Credit Facilities). Each subsidiary guarantee ranks senior in right of payment to all subordinated obligations of the subsidiary guarantor; is effectively senior to the subsidiary guarantor's existing unsecured obligations, including the subsidiary guarantor's guarantee of the New Unsecured Notes, to the extent of the collateral securing such guarantee; ranks equally in right of payment with all of the subsidiary guarantor's existing and future senior obligations, including the subsidiary guarantor's guarantee of the Senior Credit Facilities and any future senior secured credit facility, the Existing Senior Secured Notes and the New Unsecured Notes; and is structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any non-guarantor subsidiary of the subsidiary guarantor (other than indebtedness and liabilities owed to Acquisition

Corp. or one of its subsidiary guarantors). Any subsidiary guarantee of the New Senior Secured Notes may be released in certain circumstances. On May 7, 2014, Parent issued a guarantee whereby it fully and unconditionally guaranteed the payments of Acquisition Corp. on the New Senior Secured Notes.

Optional Redemption

At any time prior to April 15, 2017, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of New Senior Secured Notes (including the aggregate principal amount of any additional securities constituting New Senior Secured Notes) issued under the New Secured Notes Indenture, at its option, at a redemption price equal to 105.625% of the principal amount of the New Senior Secured Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of New Senior Secured Notes on the relevant record date to receive interest on the relevant interest payment date), with funds in an aggregate amount not exceeding the net cash proceeds of one or more equity offerings by Acquisition Corp. or any contribution to Acquisition Corp.'s common equity capital made with the net cash proceeds of one or more equity offerings by Acquisition Corp.'s direct or indirect parent; provided that: (1) at least 50% of the aggregate principal amount of New Senior Secured Notes originally issued under the New Secured Notes Indenture (including the aggregate principal amount of any additional securities constituting New Senior Secured Notes issued under the New Secured Notes Indenture) remains outstanding immediately after the occurrence of such redemption; and (2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such equity offering.

The New Senior Secured Notes may be redeemed, in whole or in part, at any time prior to April 15, 2017, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the New Senior Secured Notes redeemed plus the applicable make-whole premium as of, and accrued and unpaid interest thereon, if any, to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On or after April 15, 2017, Acquisition Corp. may redeem all or a part of the New Senior Secured Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon, if any, on the New Senior Secured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on April 15 of the years indicated below:

Year	Percentage
2017	104.219 %
2018	102.813 %
2019	101.406 %
2020 and thereafter	100.000 %

In addition, during any 12-month period prior to April 15, 2017, Acquisition Corp. will be entitled to redeem up to 10% of the original aggregate principal amount of the New Senior Secured Notes (including the principal amount of any additional securities of the same series) at a redemption price equal to 103.000% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Change of Control

Upon the occurrence of a change of control, which is defined in the Secured Notes Base Indenture, each holder of the New Senior Secured Notes has the right to require Acquisition Corp. to repurchase some or all of such holder's New Senior Secured Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

Covenants

The New Secured Notes Indenture contains covenants limiting, among other things, Acquisition Corp.'s ability and the ability of most of its subsidiaries to: incur additional indebtedness or issue certain preferred shares; pay dividends on or make distributions in respect of its capital stock or make investments or other restricted payments; create restrictions on the ability of its restricted subsidiaries to pay dividends to it or make certain other intercompany transfers; sell certain assets; create liens; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; and enter into certain transactions with its affiliates.

Events of Default

The New Secured Notes Indenture also provides for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on New Senior Secured Notes to become or to be declared due and payable.

New Unsecured Notes

On April 9, 2014, Acquisition Corp. issued $660 million in aggregate principal amount of its 6.750% Senior Notes due 2022 under the Indenture, dated as of April 9, 2014 (the “New Unsecured Notes Base Indenture”), among Acquisition Corp., the guarantors party thereto and the Trustee, as supplemented by the First Supplemental Indenture, dated as of April 9, 2014 (the “New Unsecured Notes Supplemental Indenture” and, together with the New Unsecured Notes Base Indenture, the “New Unsecured Notes Indenture”), among the Issuer, the guarantors party thereto and the Trustee.

Interest on the New Unsecured Notes will accrue at the rate of 6.750% per annum and will be payable semi-annually in arrears on April 15 and October 15, commencing on October 15, 2014.

Ranking

The New Unsecured Notes are Acquisition Corp.’s senior unsecured obligations. The New Unsecured Notes rank senior in right of payment to Acquisition Corp.’s subordinated indebtedness; rank equally in right of payment with all of Acquisition Corp.’s existing and future senior indebtedness, including the Existing Senior Secured Notes, the New Senior Secured Notes and indebtedness outstanding under the Senior Credit Facilities and any future senior secured credit facility; are effectively subordinated to Acquisition Corp.'s secured senior indebtedness, including the Existing Senior Secured Notes, the New Senior Secured Notes and indebtedness under the Senior Credit Facilities and any future senior secured credit facility, to the extent of the value of the collateral securing such indebtedness; and are structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of Acquisition Corp.'s non-guarantor subsidiaries (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors).

Guarantees

The New Unsecured Notes are fully and unconditionally guaranteed on a senior unsecured basis by the subsidiary guarantors. Each subsidiary guarantee is a senior unsecured obligation of such subsidiary guarantor. Each subsidiary guarantee ranks senior in right of payment to all subordinated obligations of the subsidiary guarantor; is effectively subordinated to the subsidiary guarantor's existing secured obligations, including the subsidiary guarantor's guarantee of the Existing Senior Secured Notes, the New Senior Secured Notes and obligations under the Senior Credit Facilities and any future senior secured credit facility, to the extent of the collateral securing such guarantee; ranks equally in right of payment with all of the subsidiary guarantor's existing and future senior obligations, including the subsidiary guarantor's guarantee of the Existing Senior Secured Notes, the New Senior Secured Notes and Senior Credit Facilities and any future senior secured credit facility; and is structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any non-guarantor subsidiary of the subsidiary guarantor (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors). Any subsidiary guarantee of the New Unsecured Notes may be released in certain circumstances. On May 7, 2014, Parent issued a guarantee whereby it fully and unconditionally guaranteed the payments of Acquisition Corp. on the New Senior Unsecured Notes.

Optional Redemption

At any time prior to April 15, 2017, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of New Unsecured Notes (including the aggregate principal amount of any additional securities constituting New Unsecured Notes) issued under the New Unsecured Notes Indenture, at its option, at a redemption price equal to 106.750% of the principal amount of the New Unsecured Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of New Unsecured Notes on the relevant record date to receive interest on the relevant interest payment date), with funds in an aggregate amount not exceeding the net cash proceeds of one or more equity offerings by Acquisition Corp. or any contribution to Acquisition Corp.'s common equity capital made with the net cash proceeds of one or more equity offerings by Acquisition Corp.'s direct or indirect parent; provided that: (1) at least 50% of the aggregate principal amount of New Unsecured Notes originally issued under the New Unsecured Notes Indenture (including the aggregate principal amount of any additional securities constituting New Unsecured Notes issued under the New Unsecured Notes Indenture) remains outstanding immediately after the occurrence of such redemption; and (2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such equity offering.

The New Unsecured Notes may be redeemed, in whole or in part, at any time prior to April 15, 2017, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the New Unsecured Notes redeemed plus the applicable make-whole premium as of, and accrued and unpaid interest thereon, if any, to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On or after April 15, 2017, Acquisition Corp. may redeem all or a part of the New Unsecured Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon, if any, on the New Unsecured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on April 15 of the years indicated below:

Year	Percentage	
2017	105.063	%
2018	103.375	%
2019	101.688	%
2020 and thereafter	100.000	%

Change of Control

Upon the occurrence of a change of control, which is defined in the New Unsecured Notes Base Indenture, each holder of the New Unsecured Notes has the right to require Acquisition Corp. to repurchase some or all of such holder’s New Unsecured Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

Covenants

The New Unsecured Notes Indenture contains covenants limiting, among other things, Acquisition Corp.'s ability and the ability of most of its subsidiaries to: incur additional indebtedness or issue certain preferred shares; pay dividends on or make distributions in respect of its capital stock or make investments or other restricted payments; create restrictions on the ability of its restricted subsidiaries to pay dividends to it or make certain other intercompany transfers; sell certain assets; create liens; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; and enter into certain transactions with its affiliates.

Events of Default

The New Unsecured Notes Indenture also provides for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on New Unsecured Notes to become or to be declared due and payable.

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. had issued and outstanding, as of March 31, 2014, the 6.00% Senior Secured Notes due 2021, the 6.25% Senior Secured Notes due 2021 and the 11.50% Senior Notes due 2018 (together, the "Acquisition Corp. Notes").

The Holdings Notes are guaranteed by the Company. This guarantee is full and unconditional. 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), which are not guarantors of the Holdings Notes, 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, or were, 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 New Senior Secured Notes and the New Unsecured Notes are also guaranteed by the Company and, in addition, are guaranteed by all of Acquisition Corp.'s domestic wholly owned subsidiaries.

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, subsequent to the 2014 Refinancing, the indentures for the New Senior Secured Notes and the New Unsecured Notes) and the credit agreements for the Acquisition Corp. New Senior Credit Facilities, and, with respect to the Company, the indenture for the Holdings Notes.

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Balance Sheet (Unaudited)

March 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	$	$ 27	$ 122	$	$ 149	$	$	$	$ 149
Accounts receivable, net		143	251		394				394
Inventories		9	26		35				35
Royalty advances expected to be recouped within one year		60	43		103				103
Deferred tax assets		21	22		43				43
Prepaid and other current assets	5	7	72		84				84
Total current assets	5	267	536		808				808
Due (to) from parent companies	965	(48)	(917)						
Investments in and advances to (from) consolidated subsidiaries	2,544	1,127		(3,671)		777	623	(1,400)	
Royalty advances expected to be recouped after one year		111	80		191				191
Property, plant and equipment, net		107	80		187				187
Goodwill		1,379	300		1,679				1,679
Intangible assets subject to amortization, net		964	2,067		3,031				3,031
Intangible assets not subject to amortization		75	45		120				120

Other assets	63	21	24		108	6			114
Total assets	$ 3,577	$ 4,003	$ 2,215	$ (3,671)	$ 6,124	$ 783	$ 623	$ (1,400)	$ 6,130
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$	$ 82	$ 128	$	$ 210	$	$	$	$ 210
Accrued royalties		532	608		1,140				1,140
Accrued liabilities		76	196		272				272
Accrued interest	65				65	10			75
Deferred revenue		171	92		263				263
Current portion of long-term debt	13				13				13
Other current liabilities			10		10				10
Total current liabilities	78	861	1,034		1,973	10			1,983
Long-term debt	2,706				2,706	150			2,856
Deferred tax liabilities, net		126	290		416				416
Other noncurrent liabilities	16	82	136		234				234
Total liabilities	2,800	1,069	1,460		5,329	160			5,489
Total Warner Music Group Corp. equity (deficit)	777	2,934	737	(3,671)	777	623	623	(1,400)	623
Noncontrolling interest			18		18				18
Total equity (deficit)	777	2,934	755	(3,671)	795	623	623	(1,400)	641
Total liabilities and equity (deficit)	$ 3,577	$ 4,003	$ 2,215	$ (3,671)	$ 6,124	$ 783	$ 623	$ (1,400)	$ 6,130

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Balance Sheet

September 30, 2013

	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
Assets:									
Current assets:									
Cash and equivalents	$	$ 16	$ 139	$	$ 155	$	$	$	$ 155
Accounts receivable, net		185	326		511				511
Inventories		10	23		33				33
Royalty advances expected to be recouped within one year		59	34		93				93
Deferred tax assets		21	22		43				43
Prepaid and other current assets	5	8	46		59				59
Total current assets	5	299	590		894				894
Due (to) from parent companies	799	(27)	(772)						
Investments in and advances to (from) consolidated subsidiaries	2,811	930		(3,741)		879	726	(1,605)	
Royalty advances expected to be recouped after one year		109	64		173				173
Property, plant and equipment, net		101	79		180				180
Goodwill		1,379	289		1,668				1,668
Intangible assets subject to amortization, net		1,007	2,100		3,107				3,107
Intangible assets not subject to amortization		75	45		120				120
Other assets	68	14	21		103	7			110
Total assets	$ 3,683	$ 3,887	$ 2,416	$ (3,741)	$ 6,245	$ 886	$ 726	$ (1,605)	$ 6,252

Liabilities and Deficit:									
Current liabilities:									
Accounts payable		$ 96	$ 184		$ 280				$ 280
Accrued royalties		570	577		1,147				1,147
Accrued liabilities		94	227		321				321
Accrued interest	65				65	10			75
Deferred revenue		56	83		139				139
Current portion of long-term debt	13				13				13
Other current liabilities		23	(4)	6	25				25
Total current liabilities	78	839	1,067	6	1,990	10			2,000
Long-term debt	2,704				2,704	150			2,854
Deferred tax liabilities, net		128	311		439				439
Other noncurrent liabilities	22	68	133	(7)	216				216
Total liabilities	2,804	1,035	1,511	(1)	5,349	160			5,509
Total Warner Music Group Corp. equity (deficit)	879	2,852	888	(3,740)	879	726	726	(1,605)	726
Noncontrolling interest			17		17				17
Total equity (deficit)	879	2,852	905	(3,740)	896	726	726	(1,605)	743
Total liabilities and equity (deficit)	$3,683	$ 3,887	$ 2,416	$ (3,741)	$ 6,245	$ 886	$ 726	$ (1,605)	$ 6,252

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Three Months Ended March 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)									
Revenues	$	$ 349	$ 332	$ (28)	$ 653	$	$	$	$ 653
Costs and expenses:									
Cost of revenues		(136)	(208)	25	(319)				(319)
Selling, general and administrative expenses		(119)	(156)	2	(273)				(273)
Amortization of intangible assets		(30)	(36)		(66)				(66)
Total costs and expenses		(285)	(400)	27	(658)				(658)
Operating income (expense)		64	(68)	(1)	(5)				(5)
Interest income (expense), net	(28)	3	(23)		(48)	(6)			(54)
Equity gains (losses) from consolidated subsidiaries	(32)	2		30		(54)	(60)	114	
Other income (expense), net	3	(7)	1		(3)				(3)
Income (loss) before income taxes	(57)	62	(90)	29	(56)	(60)	(60)	114	(62)
Income tax (expense) benefit	3	(4)	3	1	3				3
Net income (loss)	(54)	58	(87)	30	(53)	(60)	(60)	114	(59)
Less: income attributable to noncontrolling interest			(1)		(1)				(1)
Net income (loss) attributable to Warner Music Group Corp.	$ (54)	$ 58	$ (88)	$ 30	$ (54)	$ (60)	$ (60)	$ 114	$ (60)

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Three Months Ended March 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	$	$ 351	$ 373	$ (49)	$ 675	$	$	$	$ 675
Costs and expenses:									
Cost of revenues		(166)	(205)	44	(327)				(327)
Selling, general and administrative expenses		(128)	(113)	(3)	(244)				(244)
Amortization of intangible assets		(28)	(19)		(47)				(47)
Total costs and expenses		(322)	(337)	41	(618)				(618)
Operating income (loss)		29	36	(8)	57				57
Interest income (expense), net	(41)	2	(4)		(43)	(6)			(49)
Equity gains (losses) from consolidated subsidiaries	56	(28)		(28)		7	2	(9)	
Other income (expense), net	(7)	5	(2)		(4)				(4)
Income (loss) before income taxes	8	8	30	(36)	10	1	2	(9)	4
Income tax (expense) benefit			1	(1)					
Net income (loss)	8	8	31	(37)	10	1	2	(9)	4
Less: income attributable to noncontrolling interest			(2)		(2)				(2)
Net income (loss) attributable to Warner Music Group Corp.	$ 8	$ 8	$ 29	$ (37)	$ 8	$ 1	$ 2	$ (9)	$ 2

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Six Months Ended March 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)								
Revenues	$—	$ 703	$ 842	$ (77)	$ 1,468	$ —	$ —	$ —	$ 1,468
Costs and expenses:									
Cost of revenues	—	(291)	(543)	74	(760)	—	—	—	(760)
Selling, general and administrative expenses	—	(234)	(335)	3	(566)	—	—	—	(566)
Amortization of intangible assets	—	(60)	(72)	—	(132)	—	—	—	(132)
Total costs and expenses	—	(585)	(950)	77	(1,458)	—	—	—	(1,458)
Operating income (loss)	—	118	(108)	—	10	—	—	—	10
Interest income (expense), net	(59)	4	(43)	—	(98)	(11)	—	—	(109)
Equity gains (losses) from consolidated subsidiaries	(53)	(11)	—	64	—	(86)	(97)	183	—
Other income (expense), net	15	(21)	(1)	—	(7)	—	—	—	(7)
Income (loss) before income taxes	(97)	90	(152)	64	(95)	(97)	(97)	183	(106)
Income tax (expense) benefit	11	(8)	10	(2)	11	—	—	—	11
Net income (loss)	(86)	82	(142)	62	(84)	(97)	(97)	183	(95)
Less: income attributable to noncontrolling interest	—	—	(2)	—	(2)	—	—	—	(2)
Net income (loss) attributable to Warner Music Group Corp.	$ (86)	$ 82	$ (144)	$ 62	$ (86)	$ (97)	$ (97)	$ 183	$ (97)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Six Months Ended March 31, 2013

	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	$ —	$ 695	$ 854	$ (105)	$ 1,444	$ —	$ —	$ —	$ 1,444
Costs and expenses:									
Cost of revenues	—	(327)	(500)	93	(734)	—	—	—	(734)
Selling, general and administrative expenses	—	(252)	(267)	12	(507)	—	—	—	(507)
Amortization of intangible assets	—	(58)	(37)	—	(95)	—	—	—	(95)
Total costs and expenses	—	(637)	(804)	105	(1,336)	—	—	—	(1,336)
Operating income	—	58	50	—	108	—	—	—	108
Loss on extinguishment of debt	(83)	—	—	—	(83)	—	—	—	(83)
Interest income (expense), net	(85)	3	(9)	—	(91)	(11)	—	—	(102)
Equity gains (losses) from consolidated subsidiaries	97	(45)	—	(52)	—	(67)	(78)	145	—
Other income (expense), net	(7)	—	(2)	—	(9)	—	—	—	(9)
Income (loss) before income taxes	(78)	16	39	(52)	(75)	(78)	(78)	145	(86)
Income tax (expense) benefit	11	10	—	(10)	11	—	—	—	11
Net income (loss)	(67)	26	39	(62)	(64)	(78)	(78)	145	(75)
Less: income attributable to noncontrolling interest	—	—	(3)	—	(3)	—	—	—	(3)
Net income (loss) attributable to Warner Music Group Corp.	$ (67)	$ 26	$ 36	$ (62)	$ (67)	$ (78)	$ (78)	$ 145	$ (78)

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Comprehensive Income (Unaudited)

For The Three Months Ended March 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
Net income (loss)	$(54)	$ 58	$ (87)	$ 30	$ (53)	$ (60)	$ (60)	$ 114	$ (59)
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	2	—	2	(2)	2	2	2	(4)	2
Other comprehensive income (loss), net of tax:	2	—	2	(2)	2	2	2	(4)	2
Total comprehensive income (loss)	(52)	58	(85)	28	(51)	(58)	(58)	110	(57)
Less: comprehensive income attributable to noncontrolling interest	—	—	(1)	—	(1)	—	—	—	(1)
Comprehensive income (loss) attributable to Warner Music Group Corp.	$(52)	$ 58	$ (86)	$ 28	$ (52)	$ (58)	$ (58)	$ 110	$ (58)

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Comprehensive Income (Unaudited)

For The Three Months Ended March 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 income (loss)	$8	$ 8	$ 31	$ (37)	$ 10	$ 1	$ 2	$ (9)	$ 4
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	(14)	—	(14)	14	(14)	—	—	—	(14)
Other comprehensive income (loss), net of tax:	(14)	—	(14)	14	(14)	—	—	—	(14)
Total comprehensive income (loss)	(6)	8	17	(23)	(4)	1	2	(9)	(10)
Less: comprehensive income attributable to noncontrolling interest	—	—	(2)	—	(2)	—	—	—	(2)
Comprehensive income (loss) attributable to Warner Music Group Corp.	$(6)	$ 8	$ 15	$ (23)	$ (6)	$ 1	$ 2	$ (9)	$ (12)

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Comprehensive Income (Unaudited)

For The Six Months Ended March 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 income (loss)	$(86)	$ 82	$ (142)	$ 62	$ (84)	$ (97)	$ (97)	$ 183	$ (95)
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	(6)	—	(6)	6	(6)	(6)	(6)	12	(6)
Other comprehensive income (loss), net of tax:	(6)	—	(6)	6	(6)	(6)	(6)	12	(6)
Total comprehensive income (loss)	(92)	82	(148)	68	(90)	(103)	(103)	195	(101)
Less: comprehensive income attributable to noncontrolling interest	—	—	(2)	—	(2)	—	—	—	(2)
Comprehensive income (loss) attributable to Warner Music Group Corp.	$(92)	$ 82	$ (150)	$ 68	$ (92)	$ (103)	$ (103)	$ 195	$ (103)

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Comprehensive Income (Unaudited)

For The Six Months Ended March 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 income (loss)	$ (67)	$ 26	$ 39	$ (62					