Warner Music Group Corp.
Form 10-Q
February 06, 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 December 31, 2013

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 February 6, 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)

	December 31, 2013	September 30, 2013
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$129	$ 155
Accounts receivable, less allowances of $79 and $55 million	566	511
Inventories	34	33
Royalty advances expected to be recouped within one year	105	93
Deferred tax assets	43	43
Prepaid and other current assets	61	59
Total current assets	938	894
Royalty advances expected to be recouped after one year	195	173
Property, plant and equipment, net	181	180
Goodwill	1,677	1,668
Intangible assets subject to amortization, net	3,074	3,107
Intangible assets not subject to amortization	120	120
Other assets	103	110
Total assets	$6,288	$ 6,252
Liabilities and Equity		
Current liabilities:		
Accounts payable	$246	$ 280
Accrued royalties	1,203	1,147
Accrued liabilities	288	321
Accrued interest	58	75
Deferred revenue	192	139
Current portion of long-term debt	68	13
Other current liabilities	21	25
Total current liabilities	2,076	2,000
Long-term debt	2,858	2,854
Deferred tax liabilities, net	422	439
Other noncurrent liabilities	234	216
Total liabilities	$5,590	$ 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	(378)	(341)
Accumulated other comprehensive loss, net	(69)	(61)
Total Warner Music Group Corp. equity	$681	$ 726
Noncontrolling interest	17	17
Total equity	698	743

Total liabilities and equity	$6,288	$ 6,252

See accompanying notes

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Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012
	(in millions)	
Revenues	$ 815	$ 769
Costs and expenses:		
Cost of revenues	(441)	(408)
Selling, general and administrative expenses (a)	(293)	(262)
Amortization of intangible assets	(66)	(48)
Total costs and expenses	(800)	(718)
Operating income	15	51
Loss on extinguishment of debt	—	(83)
Interest expense, net	(55)	(53)
Other expense, net	(4)	(5)
Loss before income taxes	(44)	(90)
Income tax benefit	8	11
Net loss	(36)	(79)
Less: income attributable to noncontrolling interest	(1)	(1)
Net loss attributable to Warner Music Group Corp.	$ (37)	$ (80)

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

Warner Music Group Corp.

Consolidated Statement of Comprehensive Loss (Unaudited)

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012
	(in millions)	
Net loss	$ (36)	$ (79)
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	(8)	2
Total other comprehensive (loss) income, net of tax:	(8)	2
Total comprehensive loss	(44)	(77)
Less: comprehensive income attributable to noncontrolling interest	(1)	(1)
Comprehensive loss attributable to Warner Music Group Corp.	$ (45)	$ (78)

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012
	(in millions)	
Cash flows from operating activities		
Net loss	$ (36)	$ (79)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on extinguishment of debt	—	83
Depreciation and amortization	78	61
Deferred income taxes	(16)	(10)
Non-cash share-based compensation expense	3	—
Non-cash interest expense	4	2
Changes in operating assets and liabilities:		
Accounts receivable	(56)	(23)
Inventories	(1)	1
Royalty advances	(35)	(35)
Accounts payable and accrued liabilities	(79)	(53)
Royalty payables	56	32
Accrued interest	(17)	(49)
Deferred income	60	55
Other balance sheet changes	(13)	5
Net cash used in operating activities	(52)	(10)
Cash flows from investing activities		
Acquisition of music publishing rights	(10)	(8)
Investments and acquisitions of businesses, net of cash acquired	(4)	—
Capital expenditures	(12)	(7)
Net cash used in investing activities	(26)	(15)
Cash flows from financing activities		
Proceeds from draw down of the Revolving Credit Facility	155	31
Repayment of the Revolving Credit Facility	(100)	(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 Term Loan Facility	—	594
Repayment of Acquisition Corp 9.5% Senior Secured Notes	—	(1,250)
Financing costs paid	—	(127)
Deferred financing costs paid	—	(30)
Distributions to noncontrolling interest holder	(1)	—
Net cash provided by (used in) financing activities	54	(86)
Effect of exchange rate changes on cash and equivalents	(2)	(2)
Net decrease in cash and equivalents	(26)	(113)
Cash and equivalents at beginning of period	155	302
Cash and equivalents at end of period	$ 129	$ 189

See accompanying notes

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Warner Music Group Corp.

Consolidated Statement of Equity (Unaudited)

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. Equity	Noncontrolling Interests	Total 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	—	—	—	(37)	—	(37)	1	(36)
Other comprehensive loss, net of tax	—	—	—	—	(8)	(8)	—	(8)
Distribution to noncontrolling interest	—	—	—	—	—	—	(1)	(1)
Balance at December 31, 2013	1,055	$0.001	$ 1,128	$ (378)	$ (69)	$ 681	$ 17	$ 698

See accompanying notes

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Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited)

1. Description of Business

Warner Music Group Corp. (the "Company") 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.

PLG Acquisition

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 exploited 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 month period ended December 31, 2013 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 inter-company 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 December 31, 2013 and December 31, 2012 relate to the three-month periods ended December 27, 2013 and December 28, 2012, respectively. For convenience purposes, the Company continues to date its financial statements as of December 31.

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

New Accounting Pronouncements

During the first quarter of fiscal 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 (deficit), 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 income (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 interest-rate swap and 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 Gain (Loss)	Minimum Pension Liability Adjustment	Deferred Gains (Losses) On Derivative Financial Instruments	Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance at September 30, 2013	$(57)	$ (4)	$ —	$ (61)
Other comprehensive loss (a)	(8)	—	—	(8)
Amounts reclassified from accumulated other comprehensive income	—	—	—	—
Balance at December 31, 2013	$(65)	$ (4)	$ —	$ (69)

(a) Foreign currency translation adjustments include 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 "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 Acquisition. In connection with the Acquisition, the Company incurred $20 million in professional fees and integration costs during the three months ended December 31, 2013 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 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 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 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 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 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 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 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 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 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 months ended December 31, 2012 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 months ended December 31, 2013, where WMG 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 Acquisition had taken place at the beginning of fiscal 2013.

	Three Months Ended December 31, 2012 (in millions)
Revenue	$ 906
Operating income	54
Net loss attributable to Warner Music Group Corp.	(66)

Actual results related to PLG included in the Consolidated Statements of Operations for the three months ended December 31, 2013 consist of revenues of $74 million and operating loss of $23 million, which includes professional fees and integration costs associated with the Acquisition. The results related to PLG included in the above results for the three months ended December 31, 2012 consist of revenues of $137 million and operating income of $3 million.

5. Goodwill and Intangible Assets

Goodwill

The following analysis details the changes in goodwill for each reportable segment during the three months ended December 31, 2013:

	Recorded Music	Music Publishing	Total
	(in millions)		
Balance at September 30, 2013	$1,204	$ 464	$1,668
Acquisitions	7	—	7
Dispositions	—	—	—
Other adjustments	2	—	2
Balance at December 31, 2013	$1,213	$ 464	$1,677

Acquisitions during the three months ended December 31, 2013 represent an adjustment to preliminary amounts recorded in the prior period as a result of the Acquisition of PLG based on new information obtained during the measurement period. Other adjustments during the three months ended December 31, 2013 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 consist of the following:

	Weighted Average Useful Life	December 31, 2013	September 30, 2013
		(in millions)	
Intangible assets subject to amortization:			
Recorded music catalog	11 years	$1,014	$ 1,006
Music publishing copyrights	28 years	1,566	1,546
Artist and songwriter contracts	13 years	988	983
Trademarks	7 years	7	7
		3,575	3,542
Accumulated amortization		(501)	(435)
Total net intangible assets subject to amortization		3,074	3,107
Intangible assets not subject to amortization:			
Trademarks and tradenames	Indefinite	120	120
Total net other intangible assets		$3,194	$ 3,227

6. Debt

Debt Capitalization

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

	December 31, 2013	September 30, 2013
	(in millions)	
Revolving Credit Facility (a)	55	—
Term Loan Facility due 2020—Acquisition Corp. (b)	1,303	1,303
6.00% Senior Secured Notes due 2021—Acquisition Corp.	450	450
6.25% Senior Secured Notes due 2021—Acquisition Corp. (c)	216	213
11.5% Senior Notes due 2018—Acquisition Corp. (d)	752	751
13.75% Senior Notes due 2019—Holdings	150	150
Total debt	$2,926	$ 2,867
Less: current portion	68	13
Total long-term debt	$2,858	$ 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 December 31, 2013 and September 30, 2013, respectively. There were $55 million of loans outstanding under the Revolving Credit Facility at December 31, 2013, included in the current portion of long term debt. There were no loans outstanding at September 30, 2013.

(b) Principal amount of $1.310 billion less unamortized discount of $7 million at both December 31, 2013 and September 30, 2013. Of this amount, $13 million at both December 31, 2013 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 December 31, 2013 and September 30, 2013.

(d) Face amount of $765 million less unamortized discounts of $13 million and $14 million at December 31, 2013 and September 30, 2013, respectively.

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 Senior Secured Notes due 2021 and €175 million aggregate principal amount of Senior Secured Notes due 2021 (the “New Secured Notes”) and entered into new senior secured credit facilities consisting of a $600 million term loan facility (the “Term Loan Facility”) and a $150 million revolving credit facility (the “Revolving Credit Facility” and, together with Term Loan Facility, the “New Senior Credit Facilities”). Acquisition Corp. is the borrower under the Revolving Credit Facility (the “Revolving Borrower”) and under the Term Loan Facility (the “Term Loan Borrower”). The proceeds from the 2012 Refinancing,

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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 Term Loan Facility (the "Term Loan Repayment"). Also on May 9, 2013, Acquisition Corp. entered into an amendment to the Term Loan Facility among Acquisition Corp, Holdings, the subsidiaries of Acquisition Corp. party thereto, Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the "Term Loan Credit Agreement Amendment"), providing for a $820 million delayed draw senior secured term loan facility (the "Incremental Term Loan Facility"). On July 1, 2013, Acquisition Corp. drew down the $820 million Incremental Term Loan Facility to fund the acquisition of PLG, pay fees, costs and expenses related to the acquisition and for general corporate purposes of Acquisition Corp. and its subsidiaries.

As part of the amendment to the Term Loan Facility, the interest rate, maturity date, and scheduled amortization were changed.

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 6.000% Senior Secured Notes due 2021 and €17.5 million in aggregate principal amount of its outstanding 6.250% 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.

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 currency in which the applicable borrowing is denominated in the London interbank market (adjusted for maximum reserves) for the applicable interest period ("Revolving LIBOR Rate"), 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) the overnight federal funds rate plus 0.50% and (z) the one-month Revolving LIBOR Rate plus 1.0% per annum ("Revolving Base Rate"), 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 Revolving Credit Facility bears a facility fee equal to 0.50%, payable quarterly in arrears, based on the daily commitments during the preceding quarter. The Revolving Credit Facility bears customary letter of credit fees. Acquisition Corp. is also required to pay certain upfront fees to lenders and agency fees to the agent under the Revolving Credit Facility, in the amounts and at the times agreed between the relevant parties.

The loans under the 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 Rate"), 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 from time to time, (y) the overnight federal funds rate plus 0.50% and (z) the one-month Term Loan LIBOR Rate plus 1.0% per annum ("Term Loan Base Rate"), plus, in each case, 1.75% per annum. The Term Loan LIBOR Rate shall be deemed to be not less than 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 amended 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 Term Loan Facility with the balance payable on maturity date of the Term Loans. The amended Term Loan Facility matures on July 1, 2020, with a springing maturity date on July 2, 2018 in the event that more than $153 million aggregate principal amount of the 11.50% Senior Notes of Acquisition Corp. due October 1, 2018 are outstanding on June 28, 2018 unless, on June 28, 2018, the senior secured indebtedness to EBITDA ratio of Acquisition Corp. is less than or equal to 3.50 to 1.00.

Maturity of Revolving Credit Facility

The Revolving Credit Facility matures on November 1, 2017.

Maturities of Senior Notes

As of December 31, 2013, there are no scheduled maturities of notes until 2018, when $765 million is scheduled to mature. Thereafter, $816 million is scheduled to mature.

Interest Expense, net

Total interest expense, net was $55 million and $53 million for the three months ended December 31, 2013 and December 31, 2012, respectively. The weighted-average interest rate of the Company's total debt was 6.8% at December 31, 2013, 6.9% at September 30, 2013 and 8.2% at December 31, 2012.

7. Restructuring

In conjunction with the 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 Acquisition. Under the Restructuring Plan, the Company currently expects to record an aggregate of approximately $85 million in restructuring charges, currently estimated to be made up of employee-related costs of $61 million, real estate costs of $18 million and other costs of $6 million. Total restructuring costs of $7 million were incurred in the three months ended December 31, 2013 with respect to these actions, which consist entirely of employee-related costs. Total costs to date under the Restructuring Plan are $29 million, including total cash payments of $23 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	7	—	—	7
Cash Payments	(11)	—	—	(11)
Balance at December 31, 2013	$6	$ —	$ —	$6

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 December 31, 2013 (in millions)
Selling, general and administrative expense	$ 7
Total restructuring expense	$ 7

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 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 period ended December 31, 2013:

	Deferred Equity Units	Matching Equity Units	Deferred Equity Units Fair Value	Matching Equity Units Intrinsic Value	Deferred Equity Units Weighted-Average Grant-Date	Matching Equity Units Weighted-Average

					Intrinsic Value	Grant-Date Intrinsic Value
Unvested units at September 30, 2013	24	24	$ 134.62	$ 27.49	$ 107.13	$ —
Granted	—	—	134.62	27.49	107.13	—
Vested	(5)	—				