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

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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

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

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Warner Music Group Corp.

Consolidated Statement of Equity (Unaudited)

	Common Stock					Total Warner Music		
	Shares	Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Group Corp. Equity	Noncontrolling Interest	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	—	—	—	(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	—

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	Total
	(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)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Three 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	$	$ 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)

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (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)								
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)	$ (64)	$ (78)	$ (78)	$ 145	$ (75)
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	(12)	—	(12)	12	(12)	—	—	—	(12)
Other comprehensive income (loss), net of tax:	(12)	—	(12)	12	(12)	—	—	—	(12)
Total comprehensive income (loss)	(79)	26	27	(50)	(76)	(78)	(78)	145	(87)
Less: comprehensive income attributable to noncontrolling interest	—	—	(3)	—	(3)	—	—	—	(3)
Comprehensive income (loss) attributable to Warner Music Group Corp.	$(79)	$ 26	$ 24	$ (50)	$ (79)	$ (78)	$ (78)	$ 145	$ (90)

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Cash Flows (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)								
Cash flows from operating activities:									
Net (loss) income	$(86)	$ 82	$ (142)	$ 62	$ (84)	$ (97)	$ (97)	$ 183	$ (95)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:									
Depreciation and amortization	—	77	80	—	157	—	—	—	157
Deferred income taxes	—	—	(23)	—	(23)	—	—	—	(23)
Non-cash interest expense	7	—	—	—	7	1	—	—	8
Equity (gains) losses	53	11	—	(64)	—	86	97	(183)	—
Non-cash share-based compensation expense	—	3	—	—	3	—	—	—	3
Changes in operating assets and liabilities:									
Accounts receivable	—	41	77	—	118	—	—	—	118
Inventories	—	1	(3)	—	(2)	—	—	—	(2)
Royalty advances	—	(3)	(25)	—	(28)	—	—	—	(28)
Accounts payable and accrued liabilities	—	(187)	58	8	(121)	—	—	—	(121)
Royalty payables	—	(38)	29	—	(9)	—	—	—	(9)
Accrued interest	—	—	—	—	—	—	—	—	—
Deferred revenue	—	115	13	—	128	—	—	—	128
Other balance sheet changes	3	(10)	(44)	(6)	(57)	—	—	—	(57)
Net cash (used in) provided by operating activities	(23)	92	20	—	89	(10)	—	—	79

Cash flows from investing activities:									
Acquisition of music publishing rights	—	(13)	(6)	—	(19)	—	—	—	(19)
Investments and acquisitions of businesses	—	(10)	(16)	—	(26)	—	—	—	(26)
Capital expenditures	—	(22)	(8)	—	(30)	—	—	—	(30)
Change in due to (from) subsidiaries	36	—	—	(36)	—	—	—	—	—
Net cash (used in) provided by investing activities	36	(45)	(30)	(36)	(75)	—	—	—	(75)
Cash flows from financing activities:									
Dividend by Acquisition Corp.to Holdings Corp.	(10)	—	—	—	(10)	10	—	—	—
Proceeds from the Revolving Credit Facility	230	—	—	—	230	—	—	—	230
Repayment of the Revolving Credit Facility	(230)	—	—	—	(230)	—	—	—	(230)
Amortization of Term Loan	(3)	—	—	—	(3)	—	—	—	(3)
Repayment of capital lease obligations	—	—	(1)	—	(1)				(1)
Distribution to noncontrolling interest holder	—	—	(1)	—	(1)	—	—	—	(1)
Change in due (from) to issuer	—	(36)	—	36	—	—	—	—	—
Net cash (used in) provided by financing activities	(13)	(36)	(2)	36	(15)	10	—	—	(5)
Effect of foreign currency exchange rate changes on cash	—	—	(5)	—	(5)	—	—	—	(5)
Net (decrease) increase in cash and equivalents	—	11	(17)	—	(6)	—	—	—	(6)
Cash and equivalents at beginning of period	—	16	139	—	155	—	—	—	155
Cash and equivalents at end of period	$—	$ 27	$ 122	$ —	$ 149	$ —	$ —	$ —	$ 149

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Cash Flows (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
Cash flows from operating activities:									
Net (loss) income	$ (67)	$ 26	$ 39	$ (62)	$ (64)	$ (78)	$ (78)	$ 145	$ (75)
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:									
Loss on extinguishment of debt	83				83				83
Depreciation and amortization		77	43		120				120
Deferred income taxes			(12)		(12)				(12)
Non-cash interest expense	5				5	1			6
Equity (gains) losses	(97)	45		52		67	78	(145)	
Non-cash share based compensation expense		4			4				4
Changes in operating assets and liabilities:									
Accounts receivable	(1)	(7)	72		64				64
Inventories		1	1		2				2
Royalty advances		(18)	8		(10)				(10)
Accounts payable and accrued liabilities		31	(121)	16	(74)				(74)
Royalty payables		30	(18)		12				12
Accrued interest	(13)				(13)				(13)
Deferred revenue		27	19		46				46

Other balance sheet changes	2	(10)	(14)	(6)	(28)		(28)
Net cash (used in) provided by operating activities	(88)	206	17		135	(10)	125
Cash flows from investing activities:							
Acquisition of music publishing rights		(8)	(3)		(11)		(11)
Investments and acquisitions of businesses		(5)			(5)		(5)
Capital expenditures		(9)	(4)		(13)		(13)
Advances to issuer	195			(195)			
Net cash (used in) provided by investing activities	195	(22)	(7)	(195)	(29)		(29)
Cash flows from financing activities:							
Dividend by Acquisition Corp.to Holdings Corp.	(12)				(12)	12	
Proceeds from the Revolving Credit Facility	31				31		31
Repayment of the Revolving Credit Facility	(31)				(31)		(31)
Proceeds from issuance of Acquisition Corp 6.0% Senior Secured Notes	500				500		500
Proceeds from issuance of Acquisition Corp 6.25% Senior Secured Notes	227				227		227
Proceeds from Acquisition Corp Term Loan Facility	594				594		594
Repayment of Acquisition Corp. 9.5% Senior Secured Notes	(1,250)				(1,250)		(1,250)
Financing costs paid	(127)				(127)		(127)
Deferred financing costs paid	(31)				(31)	(2)	(33)
Amortization of Term Loan	(8)				(8)		(8)
		(195)		195			

Change in due to (from) to issuer									
Net cash (used in) provided by financing activities	(107)	(195)		195	(107)	10			(97)
Effect of foreign currency exchange rate changes on cash			(7)		(7)				(7)
Net (decrease) increase in cash and equivalents		(11)	3		(8)				(8)
Cash and equivalents at beginning of period	44	105	143		292	10			302
Cash and equivalents at end of period	$44	$ 94	$ 146	$	$ 284	$ 10	$	$	$ 294

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our results of operations and financial condition with the unaudited interim financial statements included elsewhere in this Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2014 (the "Quarterly Report").

"SAFE HARBOR" STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Quarterly Report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs, cost savings, industry trends and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe" or "continue" or the negative thereof or variations thereon or similar terminology. Such statements include, among others, statements regarding our ability to develop talent and attract future talent, our ability to reduce future capital expenditures, our ability to monetize our music-based content, including through new distribution channels and formats to capitalize on the growth areas of the music industry, our ability to effectively deploy our capital, the development of digital music and the effect of digital distribution channels on our business, including whether we will be able to achieve higher margins from digital sales, the success of strategic actions (including the acquisition of Parlophone Label Group) we are taking to accelerate our transformation as we redefine our role in the music industry, the effectiveness of our ongoing efforts to reduce overhead expenditures and manage our variable and fixed cost structure and our ability to generate expected cost savings from such efforts, including expected cost savings and other synergies and benefits from our acquisition of Parlophone Label Group, our success in limiting piracy, our ability to compete in the highly competitive markets in which we operate, the growth of the music industry and the effect of our and the music industry's efforts to combat piracy in the industry, our intention to pay dividends or repurchase our outstanding notes in open market purchases, privately or otherwise, the impact on us of potential strategic transactions, ongoing developments relating to and the effect on the competitive landscape of the music industry following the sale of EMI's recorded music and music publishing businesses, our ability to fund our future capital needs and the effect of litigation on us. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this Quarterly Report. Additionally, important factors could cause our actual results to differ materially from the forward-looking statements we make in this Quarterly Report. As stated elsewhere in this Quarterly Report, such risks, uncertainties and other important factors include, among others:

- the continued decline in the global recorded music industry and the rate of overall decline in the music industry;
- downward pressure on our pricing and our profit margins and reductions in shelf space;
- our ability to identify, sign and retain artists and songwriters and the existence or absence of superstar releases;
- threats to our business associated with home copying and digital downloading;
- the significant threat posed to our business and the music industry by organized industrial piracy;
- the popular demand for particular recording artists and/or songwriters and albums and the timely completion of albums by major recording artists and/or songwriters;
- the diversity and quality of our portfolio of songwriters;
- the diversity and quality of our album releases;
- the impact of legitimate channels for digital distribution of our creative content;

our dependence on a limited number of digital music services, in particular Apple's iTunes Music Store, for the online sale of our music recordings and their ability to significantly influence the pricing structure for online music stores;
our involvement in intellectual property litigation;
our ability to continue to enforce our intellectual property rights in digital environments;
the ability to develop a successful business model applicable to a digital environment and to enter into artist services and expanded-rights deals with recording artists in order to broaden our revenue streams in growing segments of the music business;

the impact of heightened and intensive competition in the recorded music and music publishing businesses and our inability to execute our business strategy;
failure to realize expected cost savings and other synergies and benefits contemplated by the PLG Acquisition (defined below);
the integration of Parlophone Label Group making it more difficult to maintain certain strategic relationships and distracting management's focus on the business;
risks associated with our non-U.S. operations, including limited legal protections of our intellectual property rights and restrictions on the repatriation of capital;
significant fluctuations in our operations and cash flows from period to period;
our inability to compete successfully in the highly competitive markets in which we operate;
further consolidation of our industry and its impact on the competitive landscape of the music industry, specifically the acquisition of EMI's recorded music business by Universal Music Group, a division of Vivendi, ("Universal") and the acquisition of EMI's music publishing business by a consortium led by Sony Corporation of America;
trends, developments or other events in some foreign countries in which we operate;
local economic conditions in the countries in which we operate;
our failure to attract and retain our executive officers and other key personnel;
the impact of rate regulations on our Recorded Music and Music Publishing businesses;
the impact of rates on other income streams that may be set by arbitration proceedings on our business;
an impairment in the carrying value of goodwill or other intangible and long-lived assets;
unfavorable currency exchange rate fluctuations;
our failure to have full control and ability to direct the operations we conduct through joint ventures;
legislation limiting the terms by which an individual can be bound under a "personal services" contract;
a potential loss of catalog if it is determined that recording artists have a right to recapture rights in their recordings under the U.S. Copyright Act;
trends that affect the end uses of our musical compositions (which include uses in broadcast radio and television, film and advertising businesses);
the growth of other products that compete for the disposable income of consumers;
the impact of, and risks inherent in, acquisitions or business combinations;
risks inherent to our outsourcing of IT infrastructure and certain finance and accounting functions;
the fact that we have engaged in substantial restructuring activities in the past, and may need to implement further restructurings in the future and our restructuring efforts may not be successful or generate expected cost-savings;
the impact of our substantial leverage on our ability to raise additional capital to fund our operations, on our ability to react to changes in the economy or our industry and on our ability to meet our obligations under our indebtedness;
the ability to generate sufficient cash to service all of our indebtedness, and the risk that we may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful;
the fact that our debt agreements contain restrictions that limit our flexibility in operating our business;
our indebtedness levels, and the fact that we may be able to incur substantially more indebtedness which may increase the risks created by our substantial indebtedness;
the significant amount of cash required to service our indebtedness and the ability to generate cash or refinance indebtedness as it becomes due depends on many factors, some of which are beyond our control;
risks of downgrade, suspension or withdrawal of the rating assigned by a rating agency to us could impact our cost of capital;
risks relating to Access, which indirectly owns all of our outstanding capital stock, and controls our company and may have conflicts of interest with the holders of our debt or us in the future. Access may also enter into, or cause us to enter into, strategic transactions that could change the nature or structure of our business, capital structure or credit profile;

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our reliance on one company as the primary supplier for the manufacturing, packaging and physical distribution of our products in the United States and Canada and part of Europe;
risks related to evolving regulations concerning data privacy which might result in increased regulation and different industry standards;
changes in law and government regulations; and
risks related to other factors discussed under Part II, Item 1A "Risk Factors" of this Quarterly Report and in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013.

There may be other factors not presently known to us or which we currently consider to be immaterial that could cause our actual results to differ materially from those projected in any forward-looking statements we make. You should read carefully the factors described in the "Risk Factors" section of this Quarterly Report to better understand the risks and uncertainties inherent in our business and underlying any forward-looking statements.

All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this Quarterly Report and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report. We disclaim any duty to update or revise forward-looking statements to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

INTRODUCTION

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.

The Company and Holdings are holding companies that conduct substantially all of their business operations through their subsidiaries. The terms "we," "us," "our," "ours," and the "Company" refer collectively to Warner Music Group Corp. an
its consolidated subsidiaries, except where otherwise indicated.

Management's discussion and analysis of results of operations and financial condition ("MD&A") is provided as a supplement to the unaudited financial statements and footnotes included elsewhere herein to help provide an understanding of our financial condition, changes in financial condition and results of our operations. MD&A is organized as follows:

Overview. This section provides a general description of our business, as well as recent developments that we believe are important in understanding our results of operations and financial condition and in anticipating future trends.
Results of operations. This section provides an analysis of our results of operations for the three and six months ended March 31, 2014 and March 31, 2013. This analysis is presented on both a consolidated and segment basis.
Financial condition and liquidity. This section provides an analysis of our cash flows for the six months ended March 31, 2014 and March 31, 2013 as well as a discussion of our financial condition and liquidity as of March 31, 2014. The discussion of our financial condition and liquidity includes (i) a summary of our debt agreements and (ii) a summary of the key debt compliance measures under our debt agreements.

Use of OIBDA

We evaluate our operating performance based on several factors, including our primary financial measure of operating income (loss) before non-cash depreciation of tangible assets and non-cash amortization of intangible assets (which we refer to as "OIBDA"). We consider OIBDA to be an important indicator of the operational strengths and performance of our businesses. However, a limitation of the use of OIBDA as a performance measure is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our businesses. Accordingly, OIBDA should be considered in addition to, not as a substitute for, operating income, net income (loss) attributable to Warner Music Group Corp. and other measures of financial performance reported in accordance with U.S. GAAP. In addition, our definition of OIBDA may differ from similarly titled measures used by other companies. A reconciliation of consolidated historical OIBDA to operating income and net income (loss) attributable to Warner Music Group Corp. is provided in our “Results of Operations.”

Use of Constant Currency

As exchange rates are an important factor in understanding period to period comparisons, we believe the presentation of results on a constant-currency basis in addition to reported results helps improve the ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant-currency information compares results between periods as if exchange rates had remained constant period over period. We use results on a constant-currency basis as one measure to evaluate our performance. We calculate constant-currency by calculating prior year results using current year foreign currency exchange rates. We generally refer to such amounts calculated on a constant-currency basis as "excluding the impact of foreign currency exchange rates." These results should be considered in addition to, not as a substitute for, results reported in accordance with U.S. GAAP. Results on a constant-currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not a measure of performance presented in accordance with U.S. GAAP.

OVERVIEW

We are one of the world's major music-based content companies. We classify our business interests into two fundamental operations: Recorded Music and Music Publishing. A brief description of each of those operations is presented below.

Recorded Music Operations

Our 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. We play 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, our Recorded Music operations are conducted principally through our major record labels—Warner Bros. Records and the Atlantic Records Group. Our Recorded Music operations also include Rhino, a division that specializes in marketing our 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. We also conduct our 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, our Recorded Music activities are conducted in more than 50 countries primarily through various subsidiaries, affiliates and non-affiliated licensees. Internationally, we engage in the same activities as in the United States: discovering and signing artists and distributing, marketing and selling their recorded music. In most cases, we also market and distribute the records of those artists for whom our domestic record labels have international rights. In certain smaller markets, we license the right to distribute our records to non-affiliated third-party record labels. Our international artist services operations also include a network of concert promoters through which we provide resources to coordinate tours for our 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, appearances and sponsorship.

Our 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 United States, Alternative Distribution Alliance ("ADA"), which distributes the products of independent labels to retail and wholesale distributors in the United States; 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 our worldwide artist and label-services organization, including ADA Worldwide, which provides distribution services outside of the United States through a network of affiliated and non-affiliated distributors.

In addition to our Recorded Music products being sold in physical retail outlets, our 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 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.

We have integrated the sale of digital content into all aspects of our business including Artist & Repertoire ("A&R"), marketing, promotion and distribution. Our 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. We also work side-by-side with our online and mobile partners to test new concepts. We believe 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 our 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, we believe we are well positioned to take advantage of growth in digital distribution and emerging technologies to maximize the value of our assets.

We are also diversifying our revenues beyond our 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, we provide services to and participate in artists' activities outside the traditional recorded music business. We build 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 we help create.

We believe that entering into artist services and expanded-rights deals and enhancing our artist services capabilities will permit us 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 us to more effectively connect artists and fans.

Recorded Music revenues are derived from four main sources:

- Physical: the rightsholder receives revenues with respect to sales of physical products such as CDs, LPs and DVDs;
- Digital: the rightsholder receives revenues with respect to digital download services, streaming services and other online and mobile digital music services;
- Artist services and expanded-rights: the rightsholder receives revenues with respect to artist services businesses and our participation in expanded-rights associated with our artists, including sponsorship, fan clubs, artist websites, merchandising, touring, concert promotion, ticketing and artist and brand management; and
- Licensing: the rightsholder receives royalties or fees for the right to use the composition in combination with visual images such as in films or television programs, television commercials and videogames; the rightsholder also receives royalties if the composition is performed publicly through broadcast of music on television, radio, cable and satellite, and in public spaces such as shops, workplaces, restaurants, bars and clubs.

The principal costs associated with our Recorded Music operations are as follows:

- Artist and repertoire costs—the costs associated with (i) paying royalties to artists, producers, songwriters, other copyright holders and trade unions, (ii) signing and developing artists, (iii) creating master recordings in the studio and (iv) creating artwork for album covers and liner notes;
- Product costs—the costs to manufacture, package and distribute product to wholesale and retail distribution outlets, the costs to distribute products of independent labels to wholesale and retail distribution outlets, as well as those principal costs related to our artist services and expanded-rights businesses;
- Selling and marketing expenses—the costs associated with the promotion and marketing of artists and recorded music products, including costs to produce music videos for promotional purposes and artist tour support; and
- General and administrative expenses—the costs associated with general overhead and other administrative costs.

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, our Music Publishing business garners a share of the revenues generated from use of the composition.

Our Music Publishing operations are conducted principally through Warner/Chappell, our global music publishing company headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. We own or control 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, our 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. Our 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.

Music Publishing revenues are derived from five main sources:

Performance: the licensor receives royalties if the composition is performed publicly through broadcast of music on television, radio, cable and satellite, live performance at a concert or other venue (e.g., arena concerts, nightclubs), and performance of music in staged theatrical productions;
Mechanical: the licensor receives royalties with respect to compositions embodied in recordings sold in any physical format or configuration such as CDs, LPs and DVDs;

Synchronization: the licensor receives royalties or fees for the right to use the composition in combination with visual images such as in films or television programs, television commercials and videogames as well as from other uses such as in toys or novelty items and merchandise;
Digital: the licensor receives royalties or fees with respect to digital download services, streaming services and other online and mobile digital music services; and
Other: the licensor receives royalties for use in printed sheet music.
The principal costs associated with our Music Publishing operations are as follows:

Artist and repertoire costs—the costs associated with (i) paying royalties to songwriters, co-publishers and other copyright holders in connection with income generated from the exploitation of their copyrighted works and (ii) signing and developing songwriters; and
General and administrative expenses—the costs associated with general overhead and other administrative costs.
Recent Developments

Acquisition of the Parlophone Label Group

On July 1, 2013, the Company completed the acquisition of Parlophone Label Group ("PLG") from Universal 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"). PLG includes a broad range of some of the world's best-known recordings and classic and contemporary artists spanning a wide array of musical genres. PLG is comprised of the historic Parlophone label and Chrysalis and Ensign labels in the UK, as well as EMI Classics and Virgin Classics, and EMI's recorded music operations in Belgium, Czech Republic, Denmark, France, Norway, Poland, Portugal, Slovakia, Spain and Sweden. PLG's artists include Air, Alain Souchon, Camille, Coldplay, Daft Punk, Danger Mouse, David Bowie, David Guetta, Deep Purple, Duran Duran, Eliza Doolittle, Gorillaz, Iron Maiden, Jean-Louis Aubert, Jethro Tull, Julien Clerc, Kylie Minogue, M. Pokora, Magic System, Pablo Alboran, Pink Floyd, Radiohead, Roxette, Tina Turner and Tinie Tempah, as well as many developing and up-and-coming artists. PLG's EMI Classics and Virgin Classics brand names were not included with the PLG Acquisition. WMG has rebranded these businesses, respectively, as Warner Classics and Erato following the PLG Acquisition.

2014 Debt Refinancing

On April 9, 2014, the Company completed a refinancing of part of its outstanding debt (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 and $660 million in aggregate principal amount of its 6.750% Senior Notes due 2022.

See "—Financial Condition and Liquidity" for more information.

Factors Affecting Results of Operations and Financial Condition

EMI and PLG Related Costs

We incurred certain costs, primarily representing professional fees, related to our participation in a sales process, which resulted in the sale of EMI's recorded music and music publishing businesses, including the subsequent review of the transactions by the U.S. Federal Trade Commission, the European Commission and other regulatory bodies, and the subsequent sale of Parlophone Label Group by Universal Music Group. Subsequent to the close of the PLG Acquisition, we also incurred other integration and other nonrecurring costs related to the PLG Acquisition. These costs amounted to approximately $36 million for the six months ended March 31, 2014 and were recorded in the consolidated statements of operation, $4 million within product costs and $32 million within general and administrative expense. These costs amounted to approximately $3 million for the six months ended March 31, 2013 and were recorded in the consolidated statements of operation within general and administrative expense. The total integration costs are expected to be approximately $77 million.

Restructuring Costs and Expected Cost Savings and Other Synergies from the PLG Acquisition

In conjunction with the PLG Acquisition, we undertook a plan to achieve cost savings (the “Restructuring Plan”), primarily through headcount reductions and real estate consolidation. The Restructuring Plan was approved by our CEO. Under the Restructuring Plan, we currently expect to record an aggregate of approximately $86 million in restructuring costs, 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 $24 million have been incurred during 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 restructuring costs of $46 million have been incurred to date under the Restructuring Plan. A significant portion of these charges have resulted in and will continue to result in cash expenditures. Total cash payments of $31 million to date have been made under the Restructuring Plan. Employee-related costs include all cash compensation and other employee benefits paid to terminated employees. Real estate costs include costs that will continue to be incurred without economic benefit to us, such as, among others, operating lease payments for office space no longer being used and moving costs incurred during relocation, costs incurred to close a facility and IT costs to wire a new facility. The remainder of the Restructuring Plan is expected to be completed by the end of fiscal 2015.

The $86 million in expected restructuring costs does not include other integration and other nonrecurring costs related to the PLG Acquisition noted above that are currently estimated to be $77 million, which do not qualify as restructuring costs.

When completed, these actions are expected to result in cost savings and other synergies of approximately $70 million, primarily within selling, general and administrative expenses. To date, we have realized $17 million in cost savings. We expect to realize the remaining benefits of such synergies over the next 18 months. Although management currently believes such cost savings and other synergies will be realized following the PLG Acquisition, there can be no assurance that these cost savings or any other synergies will be achieved in full.

Severance Charges

We recorded severance charges (unrelated to the PLG Acquisition) of $1 million and $2 million for the three and six months, respectively, ended March 31, 2014. We recorded severance charges (unrelated to the PLG Acquisition) of $1 million and $6 million for the three and six months, respectively, ended March 31, 2013 as part of our actions to further align our cost structure with industry trends.

Expanding Business Models to Offset Declines in Physical Sales

Digital Sales

A key part of our strategy to offset declines in physical sales is to expand digital sales. New digital models have enabled us to find additional ways to generate revenues from our music content. We intend to continue to extend our global reach by executing deals with new partners and developing optimal business models that will enable us to monetize our content across various platforms, services and devices. In the United States, in the fiscal year ended September 30, 2013, our Recorded Music digital revenue exceeded our physical revenue. While there are signs of industry stabilization, the industry continues to be impacted as a result of the transition to digital sales. Part of the reason for this gap is the shift in consumer purchasing patterns made possible from new digital models. In the digital space, consumers are now presented with the opportunity to not only purchase entire albums, but to "unbundle" albums and purchase only favorite tracks as single-track downloads. While to date, sales of online and mobile downloads have constituted the majority of our digital Recorded Music and Music Publishing revenue, that may change over time as new digital models, such as streaming and subscription services, continue to develop. While it is believed within the recorded music industry that growth in digital sales will re-establish a growth pattern for recorded music sales, the timing of the recovery cannot be established with accuracy, nor can it be determined how those changes will affect individual markets. We believe it is reasonable to expect that digital margins will generally be higher than physical sales margins as a result of the elimination of certain costs associated with physical products, such as manufacturing, distribution, inventory and return costs. Partially eroding that benefit are certain digital-specific variable costs and infrastructure investments necessary to produce, market and sell music in digital formats, as well as increases in mechanical copyright royalties payable to music publishers, which apply in the digital space. As consumer purchasing patterns change over time and new digital models are launched and continue to grow, we may see fluctuations in contribution margin depending on the overall sales mix.

Artist Services and Expanded-Rights Deals

We have also been seeking to expand our relationships with recording artists as another means to offset declines in physical revenues in Recorded Music. For example, we have been signing recording artists to expanded-rights deals for the last several years. Under these expanded-rights deals, we participate in the recording artist's revenue streams, other than from recorded music sales, such as live performances, merchandising and sponsorships. We believe that additional revenue from these revenue streams will help to offset declines in physical revenue over time. As we have generally signed newer artists to these deals, increased expanded-rights revenue from these deals is expected to come several years after these deals have been signed as the artists become more successful and are able to generate revenue other than from recorded music sales. Artist services and expanded-rights Recorded Music revenue, which includes revenue from expanded-rights deals as well as revenue from our artist services business, represented approximately 10% of our total revenue during the six months ended March 31, 2014. Artist services and expanded-rights revenue will fluctuate from period to period depending upon touring schedules, among other things. We also believe that the strategy of entering into expanded-rights deals and continuing to develop our artist services business will contribute to Recorded Music growth over time. Margins for the various artist services and expanded-rights Recorded Music revenue streams can vary significantly. The overall impact on margins will, therefore, depend on the composition of the various revenue streams in any particular period. For instance, revenue from passive touring under our expanded-rights deals typically flows straight through to net income with little cost. Revenue from our management business and revenue from sponsorship and touring under expanded-rights deals are all high margin, while merchandise revenue under expanded-rights deals and concert promotion revenue from our concert promotion businesses tend to be lower margin than our traditional revenue streams from Recorded Music and Music Publishing.

Management Agreement

Upon completion of the Merger, the Company and Holdings entered into a management agreement with Access, dated as of the Merger Closing Date (the “Management Agreement”), pursuant to which Access provides the Company and its subsidiaries with financial, investment banking, management, advisory and other services. Pursuant to the Management Agreement, the Company, or one or more of its subsidiaries, will pay Access a specified annual fee initially equal to the greater of (i) the sum of (x) a base amount of approximately $9 million and (y) 1.5% of the aggregate amount of Acquired EBITDA (as defined in the Management Agreement) as at such time or (ii) 1.5% of the EBITDA (as defined in the indenture governing the WMG Holdings Corp. 13.75% Senior Notes due 2019 as required by the Management Agreement) of the Company for the applicable fiscal year, plus expenses, and a specified transaction fee for certain types of transactions completed by Holdings or one or more of its subsidiaries, plus expenses. The amount of “Acquired EBITDA” at any time shall be equal to sum of the amounts of positive EBITDA of businesses, companies or operations acquired directly or indirectly by the Company from and after the completion of the Merger, each such amount of positive EBITDA as calculated (by Access in its sole discretion) for the four fiscal quarters most recently ended for which internal financial statements are available at the date of the pertinent acquisition. In fiscal 2013, the base amount for the annual fee due under the Management Agreement was increased from $6 million to approximately $9 million to reflect the aggregate amount of Acquired EBITDA, primarily associated with the acquisition of PLG. The Annual Fee shall be calculated and payable as follows: (i) one-quarter of the Base Amount in effect on the first day of each fiscal quarter shall be paid on such date, in advance for the fiscal quarter then commencing and (ii) following the completion of every full fiscal year after the date hereof, once internal financial statements for such fiscal year are available, the Company and Access shall jointly calculate the EBITDA of the Company for such fiscal year and the Company shall pay to Access the amount, if any, by which 1.5% of such EBITDA exceeds the sum of the amounts paid in respect of such fiscal year pursuant to clause (i) above. The Company and Holdings agreed to indemnify Access and certain of its affiliates against all liabilities arising out of performance of the Management Agreement.

Such costs incurred by the Company were approximately $4 million for both the six months ended March 31, 2014 and March 31, 2013, which includes the annual fee and reimbursement of certain expenses in connection with the Management Agreement, but excludes $1 million of reimbursed expenses in each period related to certain consultants with full time roles at the Company.

RESULTS OF OPERATIONS

Three Months Ended March 31, 2014 Compared with Three Months Ended March 31, 2013

Consolidated Historical Results

Revenues

Our revenues were composed of the following amounts (in millions):

	For the Three Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
Revenue by Type				
Physical	$ 145	$ 190	$(45)	-24 %
Digital	273	262	11	4 %
Total Physical and Digital	418	452	(34)	-8 %
Artist services and expanded-rights	62	50	12	24 %
Licensing	55	52	3	6 %
Total Recorded Music	535	554	(19)	-3 %
Performance	47	48	(1)	-2 %
Mechanical	22	27	(5)	-19 %
Synchronization	27	27	—	— %
Digital	23	21	2	10 %
Other	3	4	(1)	-25 %
Total Music Publishing	122	127	(5)	-4 %
Intersegment eliminations	(4)	(6)	2	-33 %
Total Revenue	$ 653	$ 675	$(22)	-3 %
Revenue by Geographical Location				
U.S. Recorded Music	$ 219	$ 249	$(30)	-12 %
U.S. Music Publishing	52	56	(4)	-7 %
Total U.S.	271	305	(34)	-11 %
International Recorded Music	316	305	11	4 %
International Music Publishing	70	71	(1)	-1 %
Total International	386	376	10	3 %
Intersegment eliminations	(4)	(6)	2	-33 %
Total Revenue	$ 653	$ 675	$(22)	-3 %

Total Revenue

Total revenue decreased by $22 million, or 3%, to $653 million for the three months ended March 31, 2014 from $675 million for the three months ended March 31, 2013. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 81% and 19% of total revenue, respectively, for the three months ended March 31, 2014 and March 31, 2013. Prior to intersegment eliminations, U.S. and international revenues represented 41% and 59% of total revenue, respectively, for the three months ended March 31, 2014 and 45% and 55% of total revenue, respectively, for the three months ended March 31, 2013. Excluding the unfavorable impact of foreign currency exchange rates, total revenue decreased by $18 million, or 3%.

Our total revenue for the three months ended March 31, 2014 included the impact of PLG revenue of $72 million. Excluding the impact of PLG, total revenue decreased by $94 million, or 14%. This total revenue decline excluding PLG was mainly due to a light release schedule for Recorded Music.

Total digital revenue after intersegment eliminations increased by $14 million, or 5%, to $295 million for the three months ended March 31, 2014 from $281 million for the three months ended March 31, 2013. Total digital revenue represented 45% and 42% of consolidated revenue for the three months ended March 31, 2014 and March 31, 2013, respectively. Prior to intersegment eliminations, total digital revenue for the three months ended March 31, 2014 was comprised of U.S. revenue of $152 million and international revenue of $144 million, or 51% and 49% of total digital revenue, respectively. Prior to intersegment eliminations, total digital revenue for the three months ended March 31, 2013 was comprised of U.S. revenue of $157 million and international revenue of $126 million, or 55% and 45% of total digital revenue, respectively.

Recorded Music revenue decreased by $19 million, or 3%, to $535 million for the three months ended March 31, 2014 from $554 million for the three months ended March 31, 2013. Prior to intersegment eliminations, Recorded Music revenues represented 81% of consolidated revenue for the three months ended March 31, 2014 and March 31, 2013. U.S. Recorded Music revenues were $219 million and $249 million, or 41% and 45% of consolidated Recorded Music revenues for the three months ended March 31, 2014 and March 31, 2013, respectively. International Recorded Music revenues were $316 million and $305 million, or 59% and 55% of consolidated Recorded Music revenues for the three months ended March 31, 2014 and March 31, 2013, respectively.

The overall Recorded Music results include $72 million in revenue from PLG. Excluding the impact of PLG, Recorded Music revenue declined $91 million due to a light release schedule, which was reflected in our physical and digital results, partially offset by strong artist services and expanded-rights revenue. Excluding the impact of PLG revenue, physical revenue declined $78 million. The decline was driven by the ongoing shift in demand towards digital products, and was further compounded by a comparatively light release schedule in the current period. Excluding the impact of PLG revenue, digital revenue declined $18 million, primarily as a result of a light release schedule in the current period. We continued to see growth in streaming services revenue, which grew $45 million in total, and $32 million excluding the impact of PLG. Offsetting this growth was a $31 million decline in digital download revenue, or a $46 million decline excluding the impact of PLG revenue, mainly driven by a decline in the U.S. Excluding the impact of PLG revenue, artist services and expanded-rights revenue increased $11 million primarily as a result of strong concert promotion revenue in Europe due to the timing of tours. Excluding the impact of PLG revenue, licensing revenue decreased $6 million primarily due to higher international licensing revenue in the comparable prior period. Excluding the unfavorable impact of foreign currency exchange rates, total Recorded Music revenue increased by $15 million, or 3%.

Music Publishing revenues decreased by $5 million, or 4%, to $122 million for the three months ended March 31, 2014 from $127 million for the three months ended March 31, 2013. Prior to intersegment eliminations, Music Publishing revenues represented 19% of consolidated revenues for the three months ended March 31, 2014 and March 31, 2013. U.S. Music Publishing revenues were $52 million and $56 million, or 43% and 44%, of Music Publishing revenues for the three months ended March 31, 2014 and March 31, 2013, respectively. International Music Publishing revenues were $70 million and $71 million, or 57% and 56%, of Music Publishing revenues for the three months ended March 31, 2014 and March 31, 2013, respectively.

The decrease in Music Publishing revenue was mainly driven by decreases in mechanical revenue and performance revenue partially offset by an increase in digital revenue while synchronization revenue remained flat. The decrease in mechanical revenue was driven by the ongoing transition towards digital product in the music industry. The decrease in performance revenue was due to the timing of collection society distributions. The increase in digital revenue was due to a $2 million increase in streaming services revenue. There was no net impact of foreign currency exchange rates on total Music Publishing revenue.

Revenue by Geographical Location

U.S. revenue decreased by $34 million, or 11%, to $271 million for the three months ended March 31, 2014 from $305 million for the three months ended March 31, 2013. U.S. Recorded Music revenue decreased $30 million, or $45 million excluding the impact of PLG revenue. The primary driver was the decline in U.S. Recorded Music physical revenue of $25 million, or $28 million excluding the impact of PLG revenue. The physical decline was due to the ongoing shift in demand towards digital product, and was further compounded by a comparatively light release schedule in the current period. The comparative prior period included the success of Josh Groban's "All That Echos" and Blake Shelton's "Based on a True Story", both more heavily weighted toward physical sales. U.S. Recorded Music digital revenue decreased $6 million, or $17 million excluding the impact of PLG revenue. This decline reflected a light release schedule in the current period. U.S. Music Publishing revenue decreased $4 million primarily due to the decline in mechanical revenue.

International revenue increased by $10 million, or 3%, to $386 million for the three months ended March 31, 2014 from $376 million for the three months ended March 31, 2013. International Recorded Music revenue increased $11 million, but decreased $46 million excluding the impact of PLG revenue. The primary driver was the decrease in International Recorded Music physical revenue of $20 million, or $50 million excluding the impact of PLG revenue. The physical decline was due to the ongoing shift in demand towards digital product and a comparatively light release schedule in the current period. Digital revenue increased $17 million mainly due to the $18 million impact of PLG revenue. International Recorded Music artist services and expanded-rights revenue increased $11 million, or $10 million excluding PLG revenue, due to higher concert promotion revenue in Italy and France due to timing of tours. International Recorded Music Licensing revenue increased $3 million but decreased $5 million excluding the impact of PLG, primarily due to decreases in Japan and Canada. International Music Publishing revenue decreased $1 million due to the decline in mechanical revenue. Excluding the unfavorable impact of foreign currency exchange rates, total international revenue increased $14 million, or 4%.

Cost of revenues

Our cost of revenues were composed of the following amounts (in millions):

	For the Three Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
Artist and repertoire costs	$ 204	$ 214	$(10)	-5 %
Product costs	115	113	2	2 %
Total cost of revenues	$ 319	$ 327	$(8)	-2 %

Total cost of revenues decreased by $8 million, or 2%, to $319 million for the three months ended March 31, 2014 from $327 million for the three months ended March 31, 2013. Expressed as a percentage of revenues, cost of revenues increased to 49% for the three months ended March 31, 2014 from 48% for the three months ended March 31, 2013.

Artist and repertoire costs decreased by $10 million, or 5%, to $204 million for the three months ended March 31, 2014 from $214 million for the three months ended March 31, 2013 primarily due to lower royalty expense associated with lower revenue. Artist and repertoire costs as a percentage of revenue decreased to 31% for the three months ended March 31, 2014 from 32% for the three months ended March 31, 2013.

Product costs increased by $2 million, or 2%, to $115 million for the three months ended March 31, 2014 from $113 million for the three months ended March 31, 2013. The increase was primarily driven by an increase in the artist services and expanded-rights product costs associated with the increase in concert promotion revenue and was partially offset by lower product costs associated with the decrease in physical revenue. Product costs as a percentage of revenue increased to 18% for the three months ended March 31, 2014 from 17% for the three months ended March 31, 2013 primarily due to the revenue mix. Concert promotion revenue tends to yield lower margins than our traditional revenue streams.

Selling, general and administrative expense

Our selling, general and administrative expense was composed of the following amounts (in millions):

	For the Three Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
General and administrative expense (1)	$ 159	$ 133	$26	20 %
Selling and marketing expense	101	99	2	2 %
Distribution expense	13	12	1	8 %
Total selling, general and administrative expense	$ 273	$ 244	$29	12 %

(1) Includes depreciation expense of $13 million and $12 million for the three months ended March 31, 2014 and March 31, 2013, respectively.

Total selling, general and administrative expense increased by $29 million, or 12%, to $273 million for the three months ended March 31, 2014 from $244 million for the three months ended March 31, 2013. Expressed as a percentage of revenues, selling, general and administrative expense increased to 42% for the three months ended March 31, 2014 from 36% for the three months ended March 31, 2013. Total selling, general and administrative expense includes $14 million of PLG overhead costs.

General and administrative expense increased by $26 million, or 20%, to $159 million for the three months ended March 31, 2014 from $133 million for the three months ended March 31, 2013. The increase in general and administrative expense was primarily due to $17 million of restructuring costs, a $12 million increase in professional fees and other integration costs associated with the PLG Acquisition, including transitional employees, a $4 million increase in facilities cost due to the overlap in terms on the lease of our new corporate headquarters with our existing headquarters lease and PLG overhead costs. These increases were partially offset by a $4 million decrease in share-based compensation expense and a $17 million decrease in variable compensation. Expressed as a percentage of revenue, general and administrative expense increased to 24% for the three months ended March 31, 2014 from 20% for the three months ended March 31, 2013.

Selling and marketing expense increased by $2 million, or 2%, to $101 million for the three months ended March 31, 2014 from $99 million for the three months ended March 31, 2013. The increase in selling and marketing expense was primarily due to higher overhead costs, partially offset by a comparatively light release schedule with lower marketing spending in the current period.

Expressed as a percentage of revenue, selling and marketing expense increased to 16% for the three months ended March 31, 2014 from 15% for the three months ended March 31, 2013

Distribution expense increased by $1 million, or 8%, to $13 million for the three months ended March 31, 2014 from $12 million for the three months ended March 31, 2013. Expressed as a percentage of revenue, distribution expense remained flat at 2% for the three months ended March 31, 2014 and March 31, 2013.

Reconciliation of Consolidated OIBDA to Operating Income and Net Loss Attributable to Warner Music Group Corp.

As previously described, we use OIBDA as our primary measure of financial performance. The following table reconciles OIBDA to operating income, and further provides the components from operating income to net loss attributable to Warner Music Group Corp. for purposes of the discussion that follows (in millions):

	For the Three Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
OIBDA	$ 74	$ 116	$(42)	-36 %
Depreciation expense	(13)	(12)	(1)	8 %
Amortization expense	(66)	(47)	(19)	40 %
Operating (loss) income	(5)	57	(62)	-109 %
Interest expense, net	(54)	(49)	(5)	10 %
Other expense, net	(3)	(4)	1	-25 %
(Loss) income before income taxes	(62)	4	(66)	— %
Income tax benefit	3	—	3	— %
Net (loss) income	(59)	4	(63)	— %
Less: income attributable to noncontrolling interest	(1)	(2)	1	-50 %
Net (loss) income attributable to Warner Music Group Corp.	$ (60)	$ 2	$(62)	— %

OIBDA

OIBDA decreased by $42 million, or 36%, to $74 million for the three months ended March 31, 2014 as compared to $116 million for the three months ended March 31, 2013 as a result of the flow through of lower revenue and increased selling, general and administrative expense mainly due to PLG related restructuring and other integration costs as noted above. Expressed as a percentage of total revenue, OIBDA decreased to 11% for the three months ended March 31, 2014 from 17% for the three months ended March 31, 2013.

Depreciation expense

Depreciation expense increased by $1 million, or 8%, to $13 million for the three months ended March 31, 2014 from $12 million for the three months ended March 31, 2013.

Amortization expense

Amortization expense increased by $19 million, or 40%, to $66 million for the three months ended March 31, 2014 from $47 million for the three months ended March 31, 2013 due to the PLG Acquisition and the resulting increase in amortizable intangible assets.

Operating (loss) income

Operating income decreased by $62 million, to an operating loss of $5 million, for the three months ended March 31, 2014 from operating income of $57 million for the three months ended March 31, 2013. The decrease in operating income was primarily due to the factors that led to the decrease in OIBDA noted above and the increase in amortization expense, as noted above.

Interest expense, net

Our interest expense, net, increased by $5 million, or 10%, to $54 million for the three months ended March 31, 2014 from $49 million for the three months ended March 31, 2013. The increase was primarily driven by the additional debt incurred as a result of the PLG Acquisition, partially offset by lower interest rates as a result of the refinancing of certain debt obligations in the prior fiscal year as well as the paydown of debt in the prior fiscal year.

Other expense, net

Other expense, net, includes net hedging losses on foreign exchange contracts, which represent currency exchange movements associated with intercompany receivables and payables that are short term in nature, and equity losses on our share of net income or loss on investments recorded in accordance with the equity method of accounting for an unconsolidated investee.

Income tax benefit

We incurred an income tax benefit of $3 million for the three months ended March 31, 2014. We did not incur any significant income tax benefit or expense for the three months ended March 31, 2013. The increase in the income tax benefit primarily relates to a higher pretax loss mainly due to PLG related restructuring and other integration costs for the three months ended March 31, 2014.

Net (loss) income

Net income decreased by $63 million, to a net loss of $59 million for the three months ended March 31, 2014 from net income of $4 million for the three months ended March 31, 2013 as a result of the factors described above.

Noncontrolling interest

Income attributable to noncontrolling interest was $1 million for the three months ended March 31, 2014 and $2 million for the three months ended March 31, 2013.

Business Segment Results

Revenue, OIBDA and operating income (loss) by business segment were as follows (in millions):

	For the Three Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
Recorded Music				
Revenue	$ 535	$ 554	$(19)	-3 %
OIBDA	39	86	(47)	-55 %
Operating (loss) income	$ (19)	$ 45	$(64)	— %
Music Publishing				
Revenue	$ 122	$ 127	$(5)	-4 %
OIBDA	55	53	2	4 %
Operating income	$ 37	$ 37	$—	— %
Corporate expenses and intersegment eliminations				
Revenue	$ (4)	$ (6)	$2	-33 %
OIBDA	(20)	(23)	3	-13 %
Operating loss	$ (23)	$ (25)	$2	-8 %
Total				
Revenue	$ 653	$ 675	$(22)	-3 %
OIBDA	74	116	(42)	-36 %
Operating (loss) income	$ (5)	$ 57	$(62)	-109 %

Recorded Music

Revenues

Recorded Music revenue decreased by $19 million, or 3%, to $535 million for the three months ended March 31, 2014 from $554 million for the three months ended March 31, 2013. Prior to intersegment eliminations, Recorded Music revenues represented 81% of consolidated revenue for the three months ended March 31, 2014 and March 31, 2013. U.S. Recorded Music revenues were $219 million and $249 million, or 41% and 45% of consolidated Recorded Music revenues for the three months ended March 31, 2014 and March 31, 2013, respectively. International Recorded Music revenues were $316 million and $305 million, or 59% and 55% of consolidated Recorded Music revenues for the three months ended March 31, 2014 and March 31, 2013, respectively.

The overall Recorded Music results include $72 million in revenue from PLG. Excluding the impact of PLG, Recorded Music revenue declined $91 million due to a light release schedule, which was reflected in our physical and digital results, partially offset by strong artist services and expanded-rights revenue. Excluding the impact of PLG revenue, physical revenue declined $78 million. The decline was driven by the ongoing shift in demand towards digital products, and was further compounded by a comparatively light release schedule in the current period. Excluding the impact of PLG revenue, digital revenue declined $18 million, primarily as a result of a light release schedule in the current period. We continued to see growth in streaming services revenue, which grew $45 million in total, and $32 million excluding the impact of PLG. Offsetting this growth was a $31 million decline in digital download revenue, or a $46 million decline excluding the impact of PLG revenue, mainly driven by a decline in the U.S. Excluding the impact of PLG Revenue, artist services and expanded-rights revenue increased $11 million primarily as a result of strong concert promotion revenue in Europe due to the timing of tours. Excluding the impact of PLG revenue, licensing revenue decreased $6 million primarily due to higher international licensing revenue in the comparable prior period. Excluding the unfavorable impact of foreign currency exchange rates, total Recorded Music revenue increased by $15 million, or 3%.

Cost of revenues

Recorded Music cost of revenues were composed of the following amounts (in millions):

	For the Three Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
Artist and repertoire costs	$ 160	$ 164	$ (4)	-2 %
Product costs	115	113	2	2 %
Total cost of revenues	$ 275	$ 277	$ (2)	-1 %

Recorded Music cost of revenues decreased by $2 million, or 1%, to $275 million for the three months ended March 31, 2014 from $277 million for the three months ended March 31, 2013. The decrease in artist and repertoire costs was primarily due to lower royalty expense associated with lower revenue. The increase in product costs was primarily driven by an increase in the artist services and expanded-rights product costs associated with the increase in concert promotion revenue, and was partially offset by lower product costs associated by the decrease in physical revenue. Expressed as a percentage of Recorded Music revenue, Recorded Music cost of revenues increased to 51% for the three months ended March 31, 2014 from 50% for the three months ended March 31, 2013 due to the changes in revenue mix. Concert promotion revenue tends to yield lower margins than our traditional revenue streams.

Selling, general and administrative expense

Recorded Music selling, general and administrative expense was composed of the following amounts (in millions):

	For the Three Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
General and administrative expense (1)	$ 118	$ 90	$ 28	31 %
Selling and marketing expense	99	98	1	1 %
Distribution expense	13	12	1	8 %
Total selling, general and administrative expense	$ 230	$ 200	$ 30	15 %

(1) Includes depreciation expense of $9 million for both the three months ended March 31, 2014 and March 31, 2013.

Recorded Music selling, general and administrative expense increased by $30 million, or 15%, to $230 million for the three months ended March 31, 2014 from $200 million for the three months ended March 31, 2013. The $30 million increase in Recorded Music selling, general and administrative expense was due to $17 million of restructuring expense, a $15 million increase in professional fees and other integration costs associated with the PLG Acquisition, including transitional employees, $14 million of PLG overhead costs, and a $3 million increase in facilities costs due to the overlap in terms on the lease of our new corporate headquarters with our existing headquarters lease. These increases were partially offset by a comparatively light release schedule with lower marketing spending in the current period, a decrease of $2 million in share-based compensation and a $14 million decrease in variable compensation in the current period. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense increased to 43% for the three months ended March 31, 2014 from 36% for the three months ended March 31, 2013 due to the restructuring and other integration costs noted above.

OIBDA and Operating (Loss) Income

Recorded Music operating (loss) income was composed of the following amounts (in millions):

	For the Three Months Ended March 31, 2014	2013	2014 vs. 2013 $ Change	% Change
OIBDA	$ 39	86	(47)	-55 %
Depreciation and amortization	(58)	(41)	(17)	41 %
Operating (loss) income	$ (19)	$ 45	$(64)	— %

Recorded Music OIBDA decreased by $47 million, or 55%, to $39 million for the three months ended March 31, 2014 from $86 million for the three months ended March 31, 2013 as a result of the flow through of lower Recorded Music revenue and increased selling general and administrative expense mainly due to PLG related restructuring and other integration costs noted above. Expressed as a percentage of Recorded Music revenue, Recorded Music OIBDA decreased to 7% for the three months ended March 31, 2014 from 16% for the three months ended March 31, 2013. This percentage decrease was primarily driven by the increase in costs as a percentage of revenue for selling, general and administrative expense.

Recorded Music operating income decreased by $64 million due to the factors that led to the decrease in Recorded Music OIBDA noted above and the increase in Recorded Music depreciation and amortization expense due to the PLG Acquisition and the resulting increase in amortizable intangible assets.

Music Publishing

Revenues

Music Publishing revenues decreased by $5 million, or 4%, to $122 million for the three months ended March 31, 2014 from $127 million for the three months ended March 31, 2013. Prior to intersegment eliminations, Music Publishing revenues represented 19% of consolidated revenues for the three months ended March 31, 2014 and March 31, 2013. U.S. Music Publishing revenues were $52 million and $56 million, or 43% and 44%, of Music Publishing revenues for the three months ended March 31, 2014 and March 31, 2013, respectively. International Music Publishing revenues were $70 million and $71 million, or 57% and 56%, of Music Publishing revenues for the three months ended March 31, 2014 and March 31, 2013, respectively.

The decrease in Music Publishing revenue was mainly driven by decreases in mechanical revenue and performance revenue partially offset by an increase in digital revenue while synchronization revenue remained flat. The decrease in mechanical revenue was driven by the ongoing transition towards digital product in the music industry. The decrease in performance revenue was due to the timing of collection society distributions. The increase in digital revenue was due to a $2 million increase in streaming services revenue. There was no net impact of foreign currency exchange rates on total Music Publishing revenue.

Cost of revenues

Music Publishing cost of revenues were composed of the following amounts (in millions):

	For the Three Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
Artist and repertoire costs	$ 48	$ 56	$ (8)	-14 %
Total cost of revenues	$ 48	$ 56	$ (8)	-14 %

Music Publishing cost of revenues decreased by $8 million, or 14%, to $48 million for the three months ended March 31, 2014 from $56 million for the three months ended March 31, 2013, primarily driven by the decrease in revenue as well as a one-time benefit to royalty costs. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues decreased to 39% for the three months ended March 31, 2014 from 44% for the three months ended March 31, 2013 primarily due to a one-time benefit to royalty costs.

Selling, general and administrative expense

Music Publishing selling, general and administrative expense was composed of the following amounts (in millions):

	For the Three Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
General and administrative expense (1)	$ 20	$ 19	$ 1	5 %
Total selling, general and administrative expense	$ 20	$ 19	$ 1	5 %

(1) Includes depreciation expense of $1 million for both the three months ended March 31, 2014 and March 31, 2013.
Music Publishing selling, general and administrative expense increased by $1 million, or 5%, to $20 million for the three months ended March 31, 2014 from $19 million for the three months ended March 31, 2013 primarily driven by an increase in professional fees. Expressed as a percentage of Music Publishing revenue, Music Publishing selling, general and administrative expense increased to 16% for the three months ended March 31, 2014 from 15% for the three months ended March 31, 2013.

OIBDA and Operating Income

Music Publishing operating income was composed of the following amounts (in millions):

	For the Three Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
OIBDA	$ 55	53	2	4 %
Depreciation and amortization	(18)	(16)	(2)	13 %
Operating income	$ 37	$ 37	$—	— %

Music Publishing OIBDA increased by $2 million, or 4%, to $55 million for the three months ended March 31, 2014 from $53 million for the three months ended March 31, 2013 as a result of the flow through of lower Music Publishing cost of revenues slightly offset by increased Music Publishing general and administrative expense. Expressed as a percentage of Music Publishing revenue, Music Publishing OIBDA increased to 45% for the three months ended March 31, 2014 from 42% for the three months ended March 31, 2013.

Music Publishing operating income remained flat due to the factors that led to the increase in Music Publishing OIBDA noted above offset by the $2 million increase in Music Publishing depreciation and amortization expense.

Corporate Expenses and Eliminations

Our OIBDA loss from corporate expenses and eliminations decreased by $3 million to $20 million for the three months ended March 31, 2014 from $23 million for the three months ended March 31, 2013 due to a $3 million decrease in variable compensation.

Our operating loss from corporate expenses and eliminations decreased by $2 million to $23 million for the three months ended March 31, 2014 from $25 million for the three months ended March 31, 2013 due to the decrease in OIBDA loss noted above partially offset by a $1 million increase in depreciation expense.

Six Months Ended March 31, 2014 Compared with Six Months Ended March 31, 2013

Consolidated Historical Results

Revenues

Our revenues were composed of the following amounts (in millions):

	For the Six Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
Revenue by Type				
Physical	$418	$490	$(72)	-15 %
Digital	529	499	30	6 %
Total Physical and Digital	947	989	(42)	-4 %
Artist services and expanded-rights	146	110	36	33 %
Licensing	133	112	21	19 %
Total Recorded Music	1,226	1,211	15	1 %
Performance	98	95	3	3 %
Mechanical	49	53	(4)	-8 %
Synchronization	53	49	4	8 %
Digital	44	40	4	10 %
Other	6	6	—	— %
Total Music Publishing	250	243	7	3 %
Intersegment eliminations	(8)	(10)	2	-20 %
Total Revenue	$1,468	$1,444	$24	2 %
Revenue by Geographical Location				
U.S. Recorded Music	$449	$508	$(59)	-12 %
U.S. Music Publishing	93	91	2	2 %
Total U.S.	542	599	(57)	-10 %
International Recorded Music	777	703	74	11 %
International Music Publishing	157	152	5	3 %
Total International	934	855	79	9 %
Intersegment eliminations	(8)	(10)	2	-20 %
Total Revenue	$1,468	$1,444	$24	2 %

Total Revenue

Total revenue increased by $24 million, or 2%, to $1.468 billion for the six months ended March 31, 2014 from $1.444 billion for the six months ended March 31, 2013. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 83% and 17% of total revenue for the six months ended March 31, 2014 and March 31, 2013. Prior to intersegment eliminations, U.S. and international revenues represented 37% and 63% of total revenue for the six months ended March 31, 2014 and 41% and 59% of total revenue for the six months ended March 31, 2013. The weighting of U.S. versus international revenue changed primarily due to the additional PLG revenue which is more internationally weighted. Excluding the unfavorable impact of foreign currency exchange rates, total revenue increased by $34 million, or 2%.

Our total revenue for the six months ended March 31, 2014 included the impact of PLG revenue of $146 million, which reflects a light release schedule. Excluding the impact of PLG, total revenue decreased by $122 million, or 8%. This total revenue decline excluding PLG was mainly due to a light release schedule for Recorded Music, partially offset by Music Publishing strength in performance, synchronization and digital revenue.

Total digital revenue after intersegment eliminations increased by $35 million, or 7%, to $571 million for the six months ended March 31, 2014 from $536 million for the six months ended March 31, 2013. Total digital revenue represented 39% and 37% of consolidated revenue for the six months ended March 31, 2014 and March 31, 2013, respectively. Prior to intersegment eliminations, total digital revenue for the six months ended March 31, 2014 was comprised of U.S. revenue of $286 million and international revenue of $287 million, or 50% and 50% of total digital revenue, respectively. Prior to intersegment eliminations, total digital revenue for the six months ended March 31, 2013 was comprised of U.S. revenue of $296 million and international revenue of $243 million, or 55% and 45% of total digital revenue, respectively.

Recorded Music revenue increased by $15 million, or 1%, to $1.226 billion for the six months ended March 31, 2014 from $1.211 billion for the six months ended March 31, 2013. Prior to intersegment eliminations, Recorded Music revenues represented 83% of consolidated revenues for the six months ended March 31, 2014 and March 31, 2013. U.S. Recorded Music revenues were $449 million and $508 million, or 37% and 42%, of consolidated Recorded Music revenues for the six months ended March 31, 2014 and March 31, 2013, respectively. International Recorded Music revenues were $777 million and $703 million, or 63% and 58%, of consolidated Recorded Music revenues for the six months ended March 31, 2014 and March 31, 2013, respectively.

The overall Recorded Music results include $146 million in revenue from PLG. Excluding PLG, Recorded Music revenue declined $131 million due to a light release schedule, which was reflected in our physical and digital results, partially offset by strong artist services and expanded-rights revenue and an increase in licensing revenue. Excluding the impact of PLG revenue, physical revenue declined $145 million. The decline was driven by the ongoing shift in demand towards digital product, and was further compounded by a comparatively light release schedule in the current period. The comparative prior period included the success of Led Zeppelin's "Celebration Day", a release more heavily weighted toward physical sales. Excluding the impact of PLG revenue, digital revenue declined $21 million, primarily as a result of a light release schedule in the current period. The comparative prior period included the success of Bruno Mars' "Unorthodox Jukebox". We continued to see growth in streaming services revenue, which grew $78 million in total, and $54 million excluding the impact of PLG revenue. Offsetting this growth was a $41 million decline in digital download revenue, or a $67 million decline excluding the impact of PLG revenue, mainly driven by a decline in the United States. The increase in artist services and expanded-rights revenue was driven by strong concert promotion revenue in Europe due to the timing of tours. The increase in licensing revenue was primarily driven by $19 million in revenue from PLG. Excluding the unfavorable impact of foreign currency exchange rates, total Recorded Music revenue increased by $25 million, or 2%.

Music Publishing revenues increased by $7 million, or 3%, to $250 million for the six months ended March 31, 2014 from $243 million for the six months ended March 31, 2013. Prior to intersegment eliminations, Music Publishing revenues represented 17% of consolidated revenues for the six months ended March 31, 2014 and March 31, 2013. U.S. Music Publishing revenues were $93 million and $91 million, or 37%, of Music Publishing revenues for the six months ended March 31, 2014 and March 31, 2013, respectively. International Music Publishing revenues were $157 million and $152 million, or 63%, of Music Publishing revenues for the six months ended March 31, 2014 and March 31, 2013, respectively.

The increase in Music Publishing revenue was due to increases in performance revenue, synchronization revenue and digital revenue partially offset by a decrease in mechanical revenue. The increase in performance revenue was driven by the timing of collection society distributions. The increase in synchronization revenue was driven by a $3 million increase in commercial income, a $2 million increase in karaoke licensing income, and a $1 million increase in video game income due to new licensing deals, partially offset by a $2 million decline in television program income. In addition, digital revenue continued to grow primarily due to a $5 million increase in streaming services revenue. The decrease in mechanical revenue was driven by the ongoing transition towards digital product in the music industry. There was no net impact of foreign currency exchange rates on total Music Publishing revenue.

Revenue by Geographical Location

U.S. revenue decreased by $57 million, or 10%, to $542 million for the six months ended March 31, 2014 from $599 million for the six months ended March 31, 2013. U.S. Recorded Music revenue decreased $59 million, or $81 million excluding the impact of PLG revenue. The primary driver was the decrease in U.S. Recorded Music physical revenue of $54 million, or $59 million excluding the impact of PLG revenue. The physical decline was due to the ongoing shift in demand towards digital product and a comparatively light release schedule in the current period. The comparative prior period included the success of Led Zeppelin's "Celebration Day" and Josh Groban's "All That Echos", both releases more heavily weighted toward physical sales. U.S. Recorded Music digital revenue decreased $11 million, or $26 million excluding the impact of PLG revenue. This decline reflected a light release schedule. Partially offsetting these declines was a $5 million increase in U.S. Recorded Music licensing revenue, or a $3 million increase excluding the impact of PLG, primarily due to new licensing deals. U.S. Recorded Music artist services and expanded-rights revenue remained flat. U.S. Music Publishing revenue increased $2 million primarily due to a $3 million increase in synchronization revenue as a result of an increase in commercial income, a $1 million increase in digital revenue due to an increase in streaming services revenue, partially offset by a decline in mechanical revenue.

International revenue increased by $79 million, or 9%, to $934 million for the six months ended March 31, 2014 from $855 million for the six months ended March 31, 2013. International Recorded Music revenue increased $74 million, but decreased $50 million excluding the impact of PLG revenue. International Recorded Music physical revenue decreased $18 million, or $86 million excluding the impact of PLG revenue. The physical decline was due to the ongoing shift in demand towards digital product and a comparatively light release schedule in the current period. Offsetting this decrease was an increase in digital revenue of $41 million, or $5 million excluding the impact of PLG revenue. The main driver of the $5 million increase was a $28 million increase in streaming services revenue due to the increasing availability of streaming access models internationally, offset by a $16 million decline in digital download revenue and a $7 million decline in mobile revenue. International Recorded Music artist services and expanded-rights revenue increased $35 million, or $32 million excluding PLG revenue, due to higher concert promotion revenue, primarily resulting from a $23 million increase in Italy and a $19 million increase in France offset by a $10 million decrease in Japan due to timing of tours. International Recorded Music Licensing revenue increased $16 million but decreased $1 million excluding the impact of PLG, primarily due to increased broadcast fees. International Music Publishing revenue increased $5 million due to a $4 million increase in performance revenue due to the timing of a collection society distribution, a $3 million increase in digital revenue due to an increase in streaming services revenue, partially offset by a decline in mechanical revenue. Excluding the unfavorable impact of foreign currency exchange rates, total international revenue increased $89 million, or 11%.

Cost of revenues

Our cost of revenues were composed of the following amounts (in millions):

	For the Six Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
Artist and repertoire costs	$483	$479	$4	1 %
Product costs	277	255	22	9 %
Total cost of revenues	$760	$734	$26	4 %

Total cost of revenues increased by $26 million, or 4%, to $760 million for the six months ended March 31, 2014 from $734 million for the six months ended March 31, 2013. Expressed as a percentage of revenues, cost of revenues increased to 52% for the six months ended March 31, 2014 from 51% for the six months ended March 31, 2013.

Artist and repertoire costs increased by $4 million, to $483 million for the six months ended March 31, 2014 from $479 million for the six months ended March 31, 2013 primarily due to higher royalty expense associated with higher revenues. Artist and repertoire costs as a percentage of revenue remained flat at 33% for the six months ended March 31, 2014 and March 31, 2013.

Product costs increased by $22 million, or 9%, to $277 million for the six months ended March 31, 2014 from $255 million for the six months ended March 31, 2013. The increase was primarily driven by an increase in the artist services and expanded-rights product costs associated with the increase in concert promotion revenue, and was partially offset by lower product costs associated by the decrease in physical revenue. Product costs also includes $4 million of other integration costs associated with the PLG Acquisition, primarily related to supply chain integration. Product costs as a percentage of revenue increased to 19% for the six months ended March 31, 2014 from 18% for the six months ended March 31, 2013, primarily due to the revenue mix. Concert promotion revenue tends to yield lower margins than our traditional revenue streams.

Selling, general and administrative expense

Our selling, general and administrative expense was composed of the following amounts (in millions):

	For the Six Months Ended	2014 vs. 2013

	March 31,				
	2014	2013	$ Change	% Change	
General and administrative expense (1)	$320	$262	$58	22	%
Selling and marketing expense	216	216	—	—	%
Distribution expense	30	29	1	3	%
Total selling, general and administrative expense	$566	$507	$59	12	%

(1) Includes depreciation expense of $25 million for both the six months ended March 31, 2014 and March 31, 2013.

Total selling, general and administrative expense increased by $59 million, or 12%, to $566 million for the six months ended March 31, 2014 from $507 million for the six months ended March 31, 2013. Expressed as a percentage of revenues, selling, general and administrative expense increased to 39% for the six months ended March 31, 2014 from 35% for the six months ended March 31, 2013. Total selling, general and administrative expense includes $26 million of PLG overhead costs.

General and administrative expense increased by $58 million, or 22%, to $320 million for the six months ended March 31, 2014 from $262 million for the six months ended March 31, 2013. The increase in general and administrative expense was primarily due to $24 million of restructuring costs, a $29 million increase in professional fees and other integration costs associated with the PLG Acquisition, including transitional employees, a $4 million increase in facilities cost due to the overlap in terms on the lease of our new corporate headquarters, and PLG overhead costs. These increases were partially offset by a $4 million decrease in severance charges unrelated to the PLG Acquisition and a $17 million decrease in variable compensation. Expressed as a percentage of revenue, general and administrative expense increased to 22% for the six months ended March 31, 2014 from 18% for the six months ended March 31, 2013.

Selling and marketing expense remained flat at $216 million for both the six months ended March 31, 2014 and March 31, 2013. Expressed as a percentage of revenue, selling and marketing expense remained flat at 15% for both the six months ended March 31, 2014 and March 31, 2013.

Distribution expense increased by $1 million, or 3%, to $30 million for the six months ended March 31, 2014 from $29 million for the six months ended March 31, 2013. Expressed as a percentage of revenue, distribution expense remained flat at 2% for both the six months ended March 31, 2014 and March 31, 2013.

Reconciliation of Consolidated OIBDA to Operating Income and Net Loss Attributable to Warner Music Group Corp.

As previously described, we use OIBDA as our primary measure of financial performance. The following table reconciles OIBDA to operating income, and further provides the components from operating income to net loss attributable to Warner Music Group Corp. for purposes of the discussion that follows (in millions):

	For the Six Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
OIBDA	$167	$228	$(61)	-27 %
Depreciation expense	(25)	(25)	—	— %
Amortization expense	(132)	(95)	(37)	39 %
Operating income	10	108	(98)	-91 %
Loss on extinguishment of debt	—	(83)	83	-100 %
Interest expense, net	(109)	(102)	(7)	7 %
Other expense, net	(7)	(9)	2	-22 %
Loss before income taxes	(106)	(86)	(20)	23 %
Income tax benefit	11	11	—	— %
Net loss	(95)	(75)	(20)	27 %
Less: income attributable to noncontrolling interest	(2)	(3)	1	-33 %
Net loss attributable to Warner Music Group Corp.	$(97)	$(78)	$(19)	24 %

OIBDA

OIBDA decreased by $61 million, or 27%, to $167 million for the six months ended March 31, 2014 as compared to $228 million for the six months ended March 31, 2013 primarily as a result of increased selling, general and administrative expense mainly due to PLG related restructuring and other integration costs as noted above. Expressed as a percentage of total revenue, OIBDA decreased to 11% for the six months ended March 31, 2014 from 16% for the six months ended March 31, 2013.

Depreciation expense

Depreciation expense remained flat at $25 million for the six months ended March 31, 2014 and March 31, 2013.

Amortization expense

Amortization expense increased by $37 million, or 39%, to $132 million for the six months ended March 31, 2014 from $95 million for the six months ended March 31, 2013 due to the PLG Acquisition and the resulting increase in amortizable intangible assets.

Operating income

Operating income decreased $98 million, or 91%, to $10 million, for the six months ended March 31, 2014 from $108 million for the six months ended March 31, 2013. The decrease in operating income was due to the factors that led to the decrease in OIBDA noted above and the increase in amortization expense, as noted above.

Loss on extinguishment of debt

On November 1, 2012, we completed a refinancing of our then outstanding Senior Secured Notes due 2016. As a result, for the six months ended March 31, 2013 we recorded an $83 million loss on extinguishment of debt which represents the difference between the redemption payment and the carrying value of the debt as of the refinancing date. We did not have any such expense in the six months ended March 31, 2014.

Interest expense, net

Our interest expense, net, increased by $7 million, or 7%, to $109 million for the six months ended March 31, 2014 from $102 million for the six months ended March 31, 2013. The increase was primarily driven by the additional debt incurred as a result of the PLG Acquisition, partially offset by lower interest rates as a result of the refinancing of certain debt obligations in the prior fiscal year as well as the paydown of debt in the prior fiscal year.

Other expense, net

Other expense, net, includes net hedging losses on foreign exchange contracts, which represent currency exchange movements associated with intercompany receivables and payables that are short term in nature, and equity losses on our share of net income or loss on investments recorded in accordance with the equity method of accounting for an unconsolidated investee.

Income tax benefit

We incurred an income tax benefit of $11 million for both the six months ended March 31, 2014 and March 31, 2013.

Net loss

Net loss increased by $20 million, or 27%, to $95 million for the six months ended March 31, 2014 from $75 million for the six months ended March 31, 2013 as a result of the factors described above.

Noncontrolling interest

Income attributable to noncontrolling interest was $2 million for the six months ended March 31, 2014 and $3 million for the six months ended March 31, 2013.

Business Segment Results

Revenue, OIBDA and operating income (loss) by business segment were as follows (in millions):

	For the Six Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
Recorded Music				
Revenue	$1,226	$1,211	$15	1 %
OIBDA	132	200	(68)	-34 %
Operating income	$16	$119	$(103)	-87 %

Music Publishing					
Revenue	$250	$243	$7	3	%
OIBDA	74	69	5	7	%
Operating income	$39	$36	$3	8	%
Corporate expenses and intersegment eliminations					
Revenue	$(8)	$(10)	$2	-20	%
OIBDA	(39)	(41)	2	-5	%
Operating loss	$(45)	$(47)	$2	-4	%
Total					
Revenue	$1,468	$1,444	$24	2	%
OIBDA	167	228	(61)	-27	%
Operating income	$10	$108	$(98)	-91	%

Recorded Music

Revenues

Recorded Music revenue increased by $15 million, or 1%, to $1.226 billion for the six months ended March 31, 2014 from $1.211 billion for the six months ended March 31, 2013. Prior to intersegment eliminations, Recorded Music revenues represented 83% of consolidated revenues for the six months ended March 31, 2014 and March 31, 2013. U.S. Recorded Music revenues were $449 million and $508 million, or 37% and 42%, of consolidated Recorded Music revenues for the six months ended March 31, 2014 and March 31, 2013, respectively. International Recorded Music revenues were $777 million and $703 million, or 63% and 58%, of consolidated Recorded Music revenues for the six months ended March 31, 2014 and March 31, 2013, respectively.

The overall Recorded Music results include $146 million in revenue from PLG. Excluding PLG, Recorded Music revenue declined $131 million due to a light release schedule, which was reflected in our physical and digital results, partially offset by strong artist services and expanded-rights revenue and an increase in licensing revenue. Excluding the impact of PLG revenue, physical revenue declined $145 million. The decline was driven by the ongoing shift in demand towards digital product, and was further compounded by a comparatively light release schedule in the current period. The comparative prior period included the success of Led Zeppelin's "Celebration Day", a release more heavily weighted toward physical sales. Excluding the impact of PLG revenue, digital revenue declined $21 million, primarily as a result of a light release schedule in the current period. The comparative prior period included the success of Bruno Mars' "Unorthodox Jukebox". We continued to see growth in streaming services revenue, which grew $78 million in total, and $54 million excluding the impact of PLG revenue. Offsetting this growth was a $41 million decline in digital download revenue, or a $67 million decline excluding the impact of PLG revenue, mainly driven by a decline in the United States. The increase in artist services and expanded-rights revenue was driven by strong concert promotion revenue in Europe due to the timing of tours. The increase in licensing revenue was primarily driven by $19 million in revenue from PLG. Excluding the unfavorable impact of foreign currency exchange rates, total Recorded Music revenue increased by $25 million, or 2%.

Cost of revenues

Recorded Music cost of revenues were composed of the following amounts (in millions):

	For the Six Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
Artist and repertoire costs	$351	$347	$4	1 %
Product costs	277	255	22	9 %
Total cost of revenues	$628	$602	$26	4 %

Recorded Music cost of revenues increased by $26 million, or 4%, to $628 million for the six months ended March 31, 2014 from $602 million for the six months ended March 31, 2013. The increase in artist and repertoire costs was primarily due to higher royalty expense associated with higher revenues. The increase in product costs was primarily driven by an increase in the artist services and expanded-rights product costs associated with the increase in concert promotion revenue, and was partially offset by lower product costs associated with the decrease in physical revenue. Product costs also includes $4 million of other integration costs associated with the PLG Acquisition, primarily related to supply chain integration. Expressed as a percentage of Recorded Music revenue, Recorded Music cost of revenues increased to 51% for the six months ended March 31, 2014 from 50% for the six months ended March 31, 2013 due to the changes in revenue mix. Concert promotion revenue tends to yield lower margins than our traditional revenue streams.

Selling, general and administrative expense

Recorded Music selling, general and administrative expense was composed of the following amounts (in millions):

	For the Six Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
General and administrative expense (1)	$239	$183	$56	31 %
Selling and marketing expense	214	213	1	— %
Distribution expense	30	29	1	3 %
Total selling, general and administrative expense	$483	$425	$58	14 %

(1) Includes depreciation expense of $17 million and $16 million for the six months ended March 31, 2014 and March 31, 2013, respectively.

Recorded Music selling, general and administrative expense increased by $58 million, or 14%, to $483 million for the six months ended March 31, 2014 from $425 million for the six months ended March 31, 2013. The $58 million increase in Recorded Music selling, general and administrative expense was due to $24 million of restructuring expense, a $32 million increase in professional fees and other integration costs associated with the PLG Acquisition, including transitional employees, and $26 million of PLG overhead costs. These increases were partially offset by a decrease of $4 million in severance charges unrelated to the PLG Acquisition and a decrease of $14 million in variable compensation. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense increased to 39% for the six months ended March 31, 2014 from 35% for the six months ended March 31, 2013 due to the restructuring and other integration costs noted above.

OIBDA and Operating Income

Recorded Music operating income was composed of the following amounts (in millions):

	For the Six Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
OIBDA	$132	200	(68)	-34%
Depreciation and amortization	(116)	(81)	(35)	43%
Operating income	$16	$119	$(103)	-87%

Recorded Music OIBDA decreased by $68 million, or 34%, to $132 million for the six months ended March 31, 2014 from $200 million for the six months ended March 31, 2013 as a result of the flow through of higher Recorded Music revenue offset by increased selling general and administrative expense mainly due to PLG related restructuring and other integration costs noted above. Expressed as a percentage of Recorded Music revenue, Recorded Music OIBDA decreased to 11% for the six months ended March 31, 2014 from 17% for the six months ended March 31, 2013. This percentage decrease was primarily driven by the increase in costs as a percentage of revenue for both cost of revenue and selling, general and administrative expense.

Recorded Music operating income decreased by $103 million, or 87%, due to the factors that led to the decrease in Recorded Music OIBDA noted above and the increase in Recorded Music depreciation and amortization expense due to the PLG Acquisition and the resulting increase in amortizable intangible assets.

Music Publishing

Revenues

Music Publishing revenues increased by $7 million, or 3%, to $250 million for the six months ended March 31, 2014 from $243 million for the six months ended March 31, 2013. Prior to intersegment eliminations, Music Publishing revenues represented 17% of consolidated revenues for the six months ended March 31, 2014 and March 31, 2013. U.S. Music Publishing revenues were $93 million and $91 million, or 37%, of Music Publishing revenues for the six months ended March 31, 2014 and March 31, 2013, respectively. International Music Publishing revenues were $157 million and $152 million, or 63%, of Music Publishing revenues for the six months ended March 31, 2014 and March 31, 2013, respectively.

The increase in Music Publishing revenue was due to increases in performance revenue, synchronization revenue and digital revenue partially offset by a decrease in mechanical revenue. The increase in performance revenue was driven by the timing of collection society distributions. The increase in synchronization revenue was driven by a $3 million increase in commercial income, a $2 million increase in karaoke licensing income, and a $1 million increase in video game income due to new licensing deals, partially offset by a $2 million decline in television program income. In addition, digital revenue continued to grow primarily due to a $5 million increase in streaming services revenue. The decrease in mechanical revenue was driven by the ongoing transition towards digital product in the music industry. There was no net impact of foreign currency exchange rates on total Music Publishing revenue.

Cost of revenues

Music Publishing cost of revenues were composed of the following amounts (in millions):

	For the Six Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
Artist and repertoire costs	$140	$142	$(2)	-1 %
Total cost of revenues	$140	$142	$(2)	-1 %

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Music Publishing cost of revenues decreased by $2 million, or 1%, to $140 million for the six months ended March 31, 2014 from $142 million for the six months ended March 31, 2013, primarily driven by the increase in revenue offset by a one-time benefit to royalty costs. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues decreased to 56% for the six months ended March 31, 2014 from 58% for the six months ended March 31, 2013 primarily due to a one-time benefit to royalty costs.

Selling, general and administrative expense

Music Publishing selling, general and administrative expense was composed of the following amounts (in millions):

	For the Six Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
General and administrative expense (1)	$ 38	$ 35	$ 3	9 %
Total selling, general and administrative expense	$ 38	$ 35	$ 3	9 %

(1) Includes depreciation expense of $2 million and $3 million for the six months ended March 31, 2014 and March 31, 2013, respectively.

Music Publishing selling, general and administrative expense increased by $3 million, or 9%, to $38 million for the six months ended March 31, 2014 from $35 million for the six months ended March 31, 2013 primarily driven by an increase in professional fees and an increase in computer consulting costs for the non-capitalized portion of costs to upgrade IT systems. Expressed as a percentage of Music Publishing revenue, Music Publishing selling, general and administrative expense increased to 15% for the six months ended March 31, 2014 from 14% for the six months ended March 31, 2013.

OIBDA and Operating Income

Music Publishing operating income was composed of the following amounts (in millions):

	For the Six Months Ended March 31,		2014 vs. 2013	
	2014	2013	$ Change	% Change
OIBDA	$ 74	69	5	7 %
Depreciation and amortization	(35)	(33)	(2)	6 %
Operating income	$ 39	$ 36	$ 3	8 %

Music Publishing OIBDA increased by $5 million, or 7%, to $74 million for the six months ended March 31, 2014 from $69 million for the six months ended March 31, 2013 as a result of the flow through of higher Music Publishing revenue slightly offset by increased Music Publishing selling general and administrative expense. Expressed as a percentage of Music Publishing revenue, Music Publishing OIBDA increased to 30% for the six months ended March

31, 2014 from 28% for the six months ended March 31, 2013.

Music Publishing operating income increased by $3 million, or 8%, due to the factors that led to the increase in Music Publishing OIBDA noted above offset by the $2 million increase in Music Publishing depreciation and amortization expense.

Corporate Expenses and Eliminations

Our OIBDA loss from corporate expenses and eliminations decreased by $2 million to $39 million for the six months ended March 31, 2014 from $41 million for the six months ended March 31, 2013. The decrease was mainly due to lower selling, general and administrative expenses primarily as a result of a $2 million decrease in professional fees.

Our operating loss from corporate expenses and eliminations decreased by $2 million to $45 million for the six months ended March 31, 2014 from $47 million for the six months ended March 31, 2013 due to the decrease in OIBDA loss noted above.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition

At March 31, 2014, we had $2.869 billion of debt, $149 million of cash and equivalents (net debt of $2.720 billion, defined as total debt less cash and equivalents) and $623 million in Warner Music Group Corp. equity. This compares to $2.867 billion of debt, $155 million of cash and equivalents (net debt of $2.712 billion, defined as total debt less cash and equivalents) and $726 million of Warner Music Group Corp. equity at September 30, 2013. Net debt increased by $8 million during the six months ended March 31, 2014 primarily as a result of a $6 million decrease in cash and equivalents.

The $103 million decrease in Warner Music Group Corp. equity during the six months ended March 31, 2014 was primarily due to $97 million of net loss for the six months ended March 31, 2014.

Cash Flows

The following table summarizes our cash flows. The financial data for the six months ended March 31, 2014 and March 31, 2013 are unaudited and are derived from our interim financial statements included elsewhere herein. The cash flow was composed of the following (in millions):

	Six Months Ended March 31, 2014	Six Months Ended March 31, 2013
Cash provided by (used in):		
Operating activities	$ 79	$ 125
Investing activities	(75)	(29)
Financing activities	(5)	(97)

Operating Activities

Cash provided by operating activities was $79 million for the six months ended March 31, 2014 as compared with cash provided by operating activities of $125 million for the six months ended March 31, 2013. A large driver of the decline in operating cash was the decline in OIBDA. Accounts payable also drove the decline in operating cash due to payout of back-ended prior year expenses and lower product and marketing expenses in the current period associated with a light release schedule. Similarly, royalties payable was a use of operating cash during the period due to timing. Offsetting this was an increase in operating cash from accounts receivable due to collections of back-ended prior year revenues and lower sales during the period. Additionally, during the period deferred revenue was a source of operating cash due to timing of contractual advances on large digital service deals and timing of European ticket sales.

Investing Activities

Cash used in investing activities was $75 million for the six months ended March 31, 2014 as compared with cash used in investing activities of $29 million for the six months ended March 31, 2013. The $75 million of cash used in investing activities for the six months ended March 31, 2014 consisted of $26 million of business acquisitions, $19 million to acquire music publishing rights and $30 million of capital expenditures. The business acquisition payments represent cash paid for new acquisitions as well as contingent consideration on business acquisitions completed in prior years. The $29 million of cash used in investing activities for the six months ended March 31, 2013, consisted of $11 million to acquire music publishing rights, $13 million for capital expenditures primarily related to IT, and $5 million to acquire businesses. The $17 million increase in capital expenditures was primarily due to further IT upgrades and leasehold improvements related to our new corporate headquarters.

Financing Activities

Cash used in financing activities was $5 million for the six months ended March 31, 2014 as compared with cash used in financing activities of $97 million for the six months ended March 31, 2013. The $5 million of cash used in financing activities for the six months ended March 31, 2014 consisted of $3 million amortization payment on the Senior Term Loan Facility, $1 million repayment on our capital lease obligation and a $1 million distribution to our non-controlling interest. The total gross amount of proceeds from the Revolving Credit Facility of $230 million was an aggregate of all drawdowns during the period. Individual amounts were drawn and repaid during the period, with no balance outstanding at period end, mainly to supplement short-term U.S. operating liquidity needs throughout the period. A significant portion of our operating cash balance resided outside of our U.S. operating companies. The $97 million of cash used in financing activities for the six months ended March 31, 2013 included the repayment of $1.250 billion of Existing Secured Notes due 2016, proceeds from the issuance of the Existing Senior Secured Notes of

$727 million, proceeds from the Senior Term Loan Facility of $594 million, $127 million of consent fees and $33 million of deferred financing costs paid related to the 2012 Refinancing and amortization of $8 million of the Senior Term Loan Facility.

Liquidity

Our primary sources of liquidity are the cash flows generated from our subsidiaries' operations, available cash and equivalents and funds available for drawing under our Revolving Credit Facility. These sources of liquidity are needed to fund our debt service requirements, working capital requirements, capital expenditure requirements, strategic acquisitions and investments, including the closing working capital adjustment in connection with our acquisition of PLG, if any, and any dividends, prepayments of debt or repurchases of our outstanding notes in open market purchases, privately negotiated purchases or otherwise, we may elect to pay or make in the future. We believe that our existing sources of cash will be sufficient to support our existing operations over the next fiscal year.

Existing Debt as of March 31, 2014

As of March 31, 2014, our long-term debt, including the current portion, was as follows (in millions):

Revolving Credit Facility (a)	$—
Term Loan Facility due 2020—Acquisition Corp. (b)	1,300
6.00% Senior Secured Notes due 2021—Acquisition Corp.	450
6.25% Senior Secured Notes due 2021—Acquisition Corp. (c)	217
11.5% Senior Notes due 2018—Acquisition Corp. (d)	752
13.75% Senior Notes due 2019—Holdings	150
Total long-term debt, including the current portion	$ 2,869

(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 of the Term Loan Facility, was included in the current portion of long-term debt.
(c) Face amount of €158 million. Amount above represents the dollar equivalent of such notes at March 31, 2014.
(d) Face amount of $765 million less unamortized discounts of $13 million at March 31, 2014. We refinanced the $765 million of 11.5% Senior Notes due 2018 as part of the 2014 Refinancing.

Revolving Credit Facility

On November 1, 2012 (the "2012 Refinancing Closing Date"), Acquisition Corp. entered into a credit agreement dated November 1, 2012, as amended by the amendment dated as of April 23, 2013 (the "Revolving Credit Agreement"), for a senior secured revolving credit facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the "Revolving Credit Facility"). The final maturity of the Revolving Credit Facility is November 1, 2017. On March 25, 2014, Warner Music Group received lender consent to an amendment (the "Revolving Credit Agreement Amendment") to the credit agreement for its Revolving Credit Facility. The Revolving Credit Agreement Amendment 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.

Acquisition Corp. is the borrower (the "Revolving Borrower") under the Revolving Credit Agreement which provides for a revolving credit facility in the amount of up to $150 million (the "Commitments") and includes a $50 million letter of credit sub-facility. Amounts are available under the Revolving Credit Facility in U.S. dollars, euros or pounds Sterling. The Revolving Credit Agreement permits loans for general corporate purposes and may also be utilized to issue letters of credit.

Interest Rates and Fees

Borrowings under the Revolving Credit Agreement bear interest at the 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 as its prime 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) 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 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.

Prepayments

If, at any time, the aggregate amount of outstanding loans (including letters of credit outstanding thereunder) exceeds the commitments under the Revolving Credit Facility, prepayments of the loans (and after giving effect to such prepayment the cash collateralization of letters of credit) will be required in an amount equal to such excess. The application of proceeds from mandatory prepayments shall not reduce the aggregate amount of then effective commitments under the Revolving Credit Facility and amounts prepaid may be reborrowed, subject to then effective commitments under the Revolving Credit Facility.

Voluntary reductions of the unutilized portion of the Commitments under the Revolving Credit Facility are permitted at any time, in minimum principal amounts of $5 million or a whole multiple of $1 million in excess thereof, without premium or penalty. Voluntary prepayments of borrowings under the Revolving Credit Facility are permitted at any time, in minimum principal amounts of $1 million, or £1 million, or €1 million (as applicable) or a whole multiple of $500,000, or £500,000, or €500,000 (as applicable) in excess thereof, subject to reimbursement of the lenders' redeployment costs actually incurred in the case of a prepayment of Revolving LIBOR-based borrowings other than on the last day of the relevant interest period.

Ranking

The indebtedness incurred under the Revolving Credit Facility constitutes senior secured obligations of the Revolving Borrower, which are secured on an equal and ratable basis with all existing and future indebtedness secured with the same security arrangements as the Revolving Credit Facility, including the Senior Term Loan Facility, the Existing Senior Secured Notes, the Existing Senior Notes, Acquisition Corp.'s 5.625% Senior Secured Notes due 2022 (the "New Senior Secured Notes") issued on April 9, 2014 and Acquisition Corp.'s 6.750% Senior Notes due 2022 (the "New Senior Unsecured Notes") issued on April 9, 2014. Indebtedness incurred under the Revolving Credit Facility ranks senior in right of payment to the Revolving Borrower's subordinated indebtedness; ranks equally in right of payment with all of the Revolving Borrower's existing and future senior indebtedness, including indebtedness under the Senior Term Loan Credit Agreement, the Existing Senior Secured Notes, and any future senior secured credit facility; is effectively senior to the Revolving Borrower's existing and future unsecured senior indebtedness, to the extent of the value of the collateral securing the Revolving Credit Facility; and is structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of the Revolving Borrower's non-guarantor subsidiaries (other than indebtedness and liabilities owed to the Revolving Borrower or one of its subsidiary guarantors (as defined below)).

Guarantees

Certain of the domestic subsidiaries of Acquisition Corp. entered into a Subsidiary Guaranty, dated as of the 2012 Refinancing Closing Date (the "Revolving Subsidiary Guaranty"), pursuant to which all obligations under the Revolving Credit Facility are guaranteed by Acquisition Corp.'s existing subsidiaries that guarantee the Existing Senior Secured Notes and each other direct and indirect wholly-owned U.S. subsidiary, other than certain excluded subsidiaries (collectively, the “subsidiary guarantors”).

Covenants, Representations and Warranties

The Revolving Credit Facility contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants are limited to the following: limitations on dividends on, and redemptions and purchases of, equity interests and other restricted payments, limitations on prepayments, redemptions and repurchases of certain debt, limitations on liens, limitations on loans and investments, limitations on debt, guarantees and hedging arrangements, limitations on mergers, acquisitions and asset sales, limitations on transactions with affiliates, limitations on changes in business conducted by the Revolving Borrower and its subsidiaries, limitations on restrictions on ability of subsidiaries to pay dividends or make distributions and limitations on amendments of subordinated debt and unsecured bonds. The negative covenants are subject to customary and other specified exceptions.

There are no financial covenants included in the Revolving Credit Agreement, other than a springing leverage ratio, which will be tested only when there are loans outstanding under the Revolving Credit Facility in excess of $30 million (excluding (i) letters of credit that have been cash collateralized and (ii) undrawn outstanding letters of credit that have not been cash collateralized not exceeding $20 million).

Events of Default

Events of default under the Revolving Credit Agreement are limited to nonpayment of principal, interest or other amounts, violation of covenants, incorrectness of representations and warranties in any material respect, cross default and cross acceleration of certain material debt, bankruptcy, material judgments, ERISA events, actual or asserted invalidities of the Revolving Credit Agreement, guarantees or security documents and a change of control, in each case subject to customary notice and grace period provisions.

Senior Term Loan Facility

On the 2012 Refinancing Closing Date, Acquisition Corp. entered into a $600 million senior secured term loan credit facility, dated November 1, 2012, pursuant to a credit agreement (the "Senior Term Loan Credit Agreement") with Credit Suisse AG, as administrative agent and collateral agent, and the other financial institutions and lenders from time to time party thereto (as described below, the "Senior Term Loan Facility" and, together with the Revolving Credit Facility, the "Senior Credit Facilities").

General

Acquisition Corp. is the borrower under the Senior Term Loan Facility (the "Term Loan Borrower"). 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, which was drawn on July 1, 2013. Currently, the Senior Term Loan Facility provides for term loans thereunder (the "Term Loans") in an amount of up to $1,310 million.

The loans outstanding under the Senior Term Loan Facility mature 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 Existing Unsecured Notes are outstanding on June 28, 2018 unless, on June 28, 2018, the senior secured indebtedness to EBITDA ratio of the Term Loan Borrower is less than or equal to 3.50 to 1.00. Following the completion of the 2014 Refinancing, the maturity of the Senior Term Loan Facility is July 1, 2020 and the springing maturity date feature has been eliminated.

The Senior Term Loan Facility amortizes in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount of the Senior Term Loan Facility. In addition, the Senior Term Loan Credit Agreement provides the right for individual lenders to extend the maturity date of their loans upon the request of the Term Loan Borrower and without the consent of any other lender.

Subject to certain conditions, without the consent of the then existing lenders (but subject to the receipt of commitments), the Senior Term Loan Facility may be expanded (or a new term loan facility entered into) by up to the greater of (i) $300 million and (ii) such additional amount as would not cause the net senior secured leverage ratio, after giving effect to the incurrence of such additional amount and any use of proceeds thereof, to exceed 3.50:1.00.

Interest Rates and Fees

The loans under the Senior Term Loan Credit Agreement 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%, or (ii) the base rate, which will be 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. Customary fees will be payable in respect of the Senior Term Loan Facility.

Prepayments

The Senior Term Loan Facility is subject to mandatory prepayment and reduction in an amount equal to (a) 50% of excess cash flow (as defined in the Senior Term Loan Credit Agreement), with reductions to 25% and zero based upon achievement of a net senior secured leverage ratio of less than or equal to 2.00:1.00 or 1.50:1.00, respectively, (b) 100% of the net cash proceeds received from the incurrence of indebtedness by the Term Loan Borrower or any of its restricted subsidiaries (other than indebtedness permitted under the Senior Term Loan Facility), and (c) 100% of the net cash proceeds of all non-ordinary course asset sales or other dispositions of property by the Term Loan Borrower and its restricted subsidiaries (including certain insurance and condemnation proceeds) in excess of $75 million and subject to the right of the Term Loan Borrower and its restricted subsidiaries to reinvest such proceeds within a specified period of time, and other exceptions. Voluntary prepayments of borrowings under the Senior Term Loan Facility are permitted at any time, in minimum principal amounts of $1 million or a whole multiple of $500,000 in excess thereof, subject to reimbursement of the lenders' redeployment costs actually incurred in the case of a prepayment of Term Loan LIBOR-based borrowings other than on the last day of the relevant interest period.

Guarantee; Security

The subsidiary guarantors entered into a Guarantee Agreement, dated as of the 2012 Refinancing Closing Date (the "Term Loan Guarantee Agreement"), pursuant to which all obligations under the Term Loan Facility are guaranteed by the subsidiary guarantors.

All obligations of the Term Loan Borrower and each guarantor are secured on an equal basis with the Existing Senior Secured Notes and the New Senior Secured Notes by a perfected security interest in the capital stock of the Term Loan Borrower and substantially all tangible and intangible assets of the Term Loan Borrower and each guarantor, including the capital stock of each direct material U.S. subsidiary of the Term Loan Borrower and each guarantor, and 65% of each series of capital stock of any non-U.S. subsidiary held directly by the Term Loan Borrower or any guarantor, subject to exceptions for fee owned real property with a value of less than $5 million, leasehold interests including requirements to deliver landlord lien waivers, estoppels and collateral access waivers, assets specifically requiring perfection through control agreements and other customary exceptions.

Covenants, Representations and Warranties

The Senior Term Loan Facility contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants are incurrence-based high yield covenants and limit the ability of the Term Loan Borrower and its restricted subsidiaries to: incur additional indebtedness or issue certain preferred shares; pay dividends, redeem stock or make other distributions; repurchase, prepay or redeem subordinated indebtedness; make investments; create restrictions on the ability of our restricted subsidiaries to pay dividends to us or make other intercompany transfers; create liens; transfer or sell assets; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; enter into certain transactions with affiliates; and designate subsidiaries as unrestricted subsidiaries. The negative covenants are subject to customary exceptions. There are no financial covenants included in the Senior Term Loan Credit Agreement.

Events of Default

Events of default under the Senior Term Loan Credit Agreement are limited to nonpayment of principal when due, nonpayment of interest or other amounts, inaccuracy of representations or warranties in any material respect, violation of covenants, cross default and cross acceleration to other material debt, certain bankruptcy or insolvency events, certain ERISA events, certain material judgments, actual or asserted invalidity of security interests in excess of $50 million, and upon a change of control, in each case subject to customary thresholds, notice and grace period provisions.

Existing Senior Secured Notes

General

On the 2012 Refinancing Closing Date, Acquisition Corp. issued (i) $500 million in aggregate principal amount of its 6.000% Senior Secured Notes due 2021 (the “Dollar Notes”) and (ii) €175 million in aggregate principal amount of its 6.250% Senior Secured Notes due 2021 (the “Euro Notes” and, together with the Dollar Notes, the “Existing Senior Secured Notes”) under the Indenture, dated as of November 1, 2012 (the “Base Indenture”), among the 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 First Supplemental Indenture, dated as of November 1, 2012 (the “Euro Supplemental Indenture”), among Acquisition Corp., the guarantors party thereto and the Trustee, in the case of the Euro Notes, and the Second Supplemental Indenture, dated as of November 1, 2012, among Acquisition Corp., the guarantors party thereto and the Trustee, in the case of the Dollar Notes (the “Dollar Supplemental Indenture” and, the Base Indenture, together with the Euro Supplemental Indenture or the Dollar Supplemental Indenture, as applicable, the “Existing Senior Secured Notes Indenture”).

Interest on the Dollar Notes accrues at the rate of 6.000% per annum and is payable semi-annually in arrears on January 15 and July 15, commencing on July 15, 2013. Interest on the Euro Notes accrues at the rate of 6.250% per annum and is payable semi-annually in arrears on January 15 and July 15, commencing on July 15, 2013.

On June 21, 2013, Acquisition Corp. redeemed $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.

Ranking

The Existing Senior Secured Notes are Acquisition Corp.'s senior secured obligations. The Existing Senior Secured Notes rank senior in right of payment to Acquisition Corp.'s existing and future subordinated indebtedness; rank equally in right of payment with all of Acquisition Corp.'s existing and future senior indebtedness, including the New Senior Secured Notes and indebtedness under the Senior Credit Facilities; are effectively senior to Acquisition Corp.'s existing and future unsecured senior indebtedness, including the New Unsecured Notes, to the extent of the value of the collateral securing the Existing Senior Secured Notes; and are structurally subordinated 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)), to the extent of the assets of such subsidiaries.

Guarantees; Security

The Existing 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 subsidiaries, except for certain excluded subsidiaries, and by any such subsidiaries that guarantee other indebtedness of Acquisition Corp. in the future. 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 ranks senior in right of payment to all existing and future subordinated obligations of such subsidiary guarantor; ranks equally in right of payment with all of such subsidiary guarantor's existing and future senior indebtedness, including such subsidiary guarantor's guarantee of the New Senior Secured Notes, and indebtedness under the Senior Credit Facilities; ranks equally in right of payment to all of such subsidiary guarantor's existing and future secured indebtedness, including such subsidiary guarantor's guarantee of the New Senior Secured Notes, to the extent of the value of the collateral securing the Existing Senior Secured Notes; and is structurally subordinated to all existing and future indebtedness and other liabilities of any non-guarantor subsidiary of such subsidiary guarantor (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors), to the extent of the assets of such subsidiary. Any subsidiary guarantee of the Existing Senior Secured Notes may be released in certain circumstances. The Existing Senior Secured Notes are not guaranteed by Holdings.

On November 16, 2012, Parent issued a guarantee whereby it fully and unconditionally guaranteed the payments of Acquisition Corp. on the Existing Senior Secured Notes.

The obligations of Acquisition Corp. and each subsidiary guarantor under the Existing Senior Secured Notes are secured by substantially all assets of Acquisition Corp. and each subsidiary guarantor to the extent required under the security agreement securing the Existing Senior Secured Notes and the Senior Credit Facilities, including a perfected pledge of all the equity interests of Acquisition Corp. and of any subsidiary guarantor, mortgages on certain real property and certain intellectual property.

Optional Redemption

Dollar Notes

At any time prior to January 15, 2016, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of Dollar Notes (including the aggregate principal amount of any additional notes constituting Dollar Notes) issued under the Existing Senior Secured Indenture, at its option, at a redemption price equal to 106.000% of the principal amount of the Dollar Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of Holders of Dollar 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 Dollar Notes originally issued under the Existing Senior Secured Notes Indenture (including the aggregate principal amount of any additional notes constituting Dollar Notes) 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 Dollar Notes may be redeemed, in whole or in part, at any time prior to January 15, 2016, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the Dollar 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 January 15, 2016, Acquisition Corp. may redeem all or a part of the Dollar 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 Dollar Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on January 15 of the years indicated below:

Year	Percentage	
2016	104.500	%
2017	103.000	%
2018	101.500	%
2019 and thereafter	100.000	%

In addition, during any 12-month period prior to January 15, 2016, Acquisition Corp. will be entitled to redeem up to 10% of the original aggregate principal amount of the Dollar Notes (including the principal amount of any additional notes 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).

Euro Notes

At any time prior to January 15, 2016, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of Euro Notes (including the aggregate principal amount of any additional notes constituting Euro Notes) issued under the Existing Senior Secured Indenture, at its option, at a redemption price equal to 106.250% of the principal amount of the Euro Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of Euro 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 Euro Notes originally issued under the Existing Senior Secured Notes Indenture (including the aggregate principal amount of any additional notes constituting Euro Notes) 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 Euro Notes may be redeemed, in whole or in part, at any time prior to January 15, 2016, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the Euro 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 January 15, 2016, Acquisition Corp. may redeem all or a part of the Euro 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 Euro Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on January 15 of the years indicated below:

Year	Percentage
2016	104.688 %
2017	103.125 %
2018	101.563 %
2019 and thereafter	100.000 %

In addition, during any 12-month period prior to January 15, 2016, Acquisition Corp. will be entitled to redeem up to 10% of the original aggregate principal amount of the Euro Notes (including the principal amount of any additional notes 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 certain events constituting a change of control, Acquisition Corp. is required to make an offer to repurchase all of the Existing Senior Secured Notes (unless otherwise redeemed) at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest and special interest, if any to the repurchase date.

Covenants

The Existing Senior Secured Notes Indenture contains covenants that, among other things, limit Acquisition Corp.'s ability and the ability of most of its subsidiaries to: incur additional debt 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 Acquisition Corp. or make certain other intercompany transfers; sell certain assets; create liens securing certain debt; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets.

Events of Default

Events of default under the Existing Senior Secured Notes Indenture are limited to: the nonpayment of principal or interest when due, violation of covenants and other agreements contained in the Existing Senior Secured Notes Indenture, cross payment default after final maturity and cross acceleration of certain material debt; certain bankruptcy and insolvency events, material judgment defaults, actual or asserted invalidity of a guarantee of a significant subsidiary, or of security interests in excess of $50 million, subject to customary notice and grace period provisions. The occurrence of an event of default would permit or require the principal of and accrued interest on the Existing Senior Secured Notes to become or to be declared due and payable.

Holdings Notes

General

On July 20, 2011, WM Holdings Finance Corp. (the "Initial Holdings Issuer"), which was merged with and into Holdings (the "Holdings Merger"), issued $150 million aggregate principal amount of 13.75% Senior Notes due 2019 (the "Holdings Notes") pursuant to the indenture, dated as of the July 20, 2011 (as amended and supplemented, the "Holdings Notes Indenture"), between the Initial Holdings Issuer and Wells Fargo Bank, as Trustee. Following the completion of the Holdings Merger on the July 20, 2011, Holdings entered into a Supplemental Indenture, dated as of July 20, 2011, with Wells Fargo, as trustee, pursuant to which Holdings became a party to the Indenture and assumed the obligations of the Initial Holdings Issuer under the Holdings Notes.

The Holdings Notes were issued at 100% of their face value. The Holdings Notes mature on October 1, 2019 and bear interest payable semi-annually on April 1 and October 1 of each year at fixed rate of 13.75% per annum.

Ranking

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

Guarantee

The Holdings Notes are not guaranteed by any of Holdings' subsidiaries. On August 2, 2011, the Company issued a guarantee whereby it agreed to fully and unconditionally guarantee the payments of Holdings related to the Holdings Notes.

Optional Redemption

Holdings may redeem the Holdings Notes, in whole or in part, at any time prior to October 1, 2015, at a price equal to 100% of the principal amount thereof, plus the applicable make-whole premium and accrued and unpaid interest, if any, on the Holdings Notes to be redeemed to the applicable redemption date.

On or after October 1, 2015, Holdings may redeem all or a part of the Holdings Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and special interest, if any, on the Holdings Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on October 1 of the years indicated below:

Year	Percentage	
2015	106.875	%
2016	103.438	%
2017 and thereafter	100.000	%

In addition, at any time (which may be more than once) before October 1, 2015, Holdings may redeem up to 35% of the aggregate principal amount of the Holdings Notes with the net cash proceeds of certain equity offerings at a redemption price of 113.75%, plus accrued and unpaid interest and special interest, if any, to the applicable redemption date; provided that: (1) at least 50% of the aggregate principal amount of Holdings Notes originally issued under the Holdings 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.

Change of Control

Upon the occurrence of certain events constituting a change of control, Holdings is required to make an offer to repurchase all of the Holdings Notes (unless otherwise redeemed) at a purchase price equal to 101% of their principal amount, plus accrued and unpaid interest, if any to the repurchase date.

Covenants

The Holdings Notes Indenture contains covenants that, among other things, limit Holdings' ability and the ability of most of its subsidiaries to: incur additional debt or issue certain preferred shares; create liens securing certain debt; 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 Holdings or make certain other intercompany transfers; sell certain assets; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; and enter into certain transactions with affiliates.

Events of Default

Events of default under the Holdings Notes Indenture are limited to: the nonpayment of principal or interest when due; violation of covenants and other agreements contained in the Holdings Notes Indenture; cross payment default after final maturity and cross acceleration of certain material debt; certain bankruptcy and insolvency events; and material judgment defaults. The occurrence of an event of default would permit or require the principal of and accrued interest on the Holdings Notes to become or to be declared due and payable.

Existing Unsecured Notes

On July 20, 2011, WM Finance Corp. (the "Initial OpCo Issuer"), which was merged with and into the Issuer, issued $765 million aggregate principal amount of 11.50% Senior Notes due 2018 (the "Existing Unsecured Notes") pursuant to the Existing Unsecured Notes Indenture, between the Initial OpCo Issuer, the guarantors party thereto and Wells Fargo Bank, National Association ("Wells Fargo") as trustee. Following the completion of the Merger on July 20, 2011, the Issuer and certain of its domestic subsidiaries (the "Guarantors") entered into a Supplemental Indenture, dated as of July 20, 2011, with Wells Fargo, as trustee, pursuant to which (i) Acquisition Corp. became a party to the Existing

Unsecured Notes Indenture and assumed the obligations of the Initial OpCo Issuer under the Existing Unsecured Notes and (ii) each Guarantor became a party to the Existing Unsecured Notes Indenture and provided an unconditional guarantee of the obligations of Acquisition Corp. under the Existing Unsecured Notes.

The Existing Unsecured Notes were issued at 97.673% of their face value for total net proceeds of $747 million, with an effective interest rate of 12%. The original issue discount ("OID") was $17 million. The OID is the difference between the stated principal amount and the issue price. The OID is being amortized over the term of the Existing Unsecured Notes using the effective interest rate method and reported as non-cash interest expense. The Existing Unsecured Notes mature on October 1, 2018 and bear interest payable semi-annually on April 1 and October 1 of each year at fixed rate of 11.5% per annum.

On March 26, 2014, Acquisition Corp. initiated the tender offer and consent solicitation for any and all of the Existing Unsecured Notes. On April 7, 2014, Acquisition Corp. entered into a supplemental indenture with the Trustee for the indenture pursuant to which the Existing Unsecured Notes are outstanding to eliminate certain restrictive covenants contained in that indenture. On April 9, 2014, (the "Closing Date"), Acquisition Corp. accepted for purchase in connection with the tender offer and related consent solicitation such Existing Unsecured Notes as had been validly tendered and not validly withdrawn at or prior to 5:00 p.m., New York City time, on April 8, 2014. The Existing Unsecured Notes were called on March 26, 2014. Following payment of the Existing Unsecured Notes tendered at or prior to the Consent Time, Acquisition Corp. deposited with the Trustee for the Existing Unsecured Notes funds sufficient to satisfy all obligations remaining under the Existing Unsecured Notes Indenture with respect to the Existing Unsecured Notes not accepted for payment on the Closing Date. The Trustee then entered into a Satisfaction and Discharge of Indenture, dated as of April 9, 2014, with respect to the Existing Unsecured Notes Indenture. Payment for the Existing Unsecured Notes not accepted for purchase in connection with the tender offer was made on April 25, 2014.

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"). Also in connection with the 2014 Refinancing, the Company used $869 million to redeem or repurchase the Company's previously outstanding $765 million Existing Unsecured Notes, 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.

Following the consummation of the 2014 Refinancing, we would have had pro forma total consolidated long-term indebtedness as of March 31, 2014 as follows (in millions):

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, 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.

The following is a description of our New Senior Secured Notes and New Unsecured Notes which are now outstanding following the 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 (the "New Senior Secured Notes") 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), Acquisition Corp.'s Existing Senior Secured Notes and indebtedness under Acquisition Corp.'s 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, the Company issued a guarantee whereby it agreed to fully and unconditionally guarantee 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 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 (the "New Unsecured Notes") 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 the 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, the Company issued a guarantee whereby it agreed to fully and unconditionally guarantee 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.

Covenant Compliance

See “Liquidity” above for a description of the covenants governing our indebtedness. The Company was in compliance with its covenants under its outstanding notes, Revolving Credit Facility and Senior Term Loan Credit Facility as of March 31, 2014.

Our Revolving Credit Facility contains a springing leverage ratio that is tied to a ratio based on Consolidated EBITDA, which is defined under the Credit Agreement governing the Revolving Credit Facility. Consolidated EBITDA differs from the term “EBITDA” as it is commonly used. For example, the definition of Consolidated EBITDA, in addition to adjusting net income to exclude interest expense, income taxes, and depreciation and amortization, also adjusts net income by excluding items or expenses not typically excluded in the calculation of “EBITDA” such as, among other items, (1) the amount of any restructuring charges or reserves; (2) any non-cash charges (including any impairment charges); (3) any net loss resulting from hedging currency exchange risks; (4) the amount of management, monitoring, consulting and advisory fees paid to Access under the Management Agreement (as defined in the Credit Agreement); (5) business optimization expenses (including consolidation initiatives, severance costs and other costs relating to initiatives aimed at profitability improvement) and (6) share-based compensation expense and also includes an add-back for certain projected cost-savings and synergies. The indentures governing our notes and our Senior Term Loan Credit Facility use financial measures called “Consolidated EBITDA” or “EBITDA” that have the same definition as Consolidated EBITDA as defined under the Credit Agreement governing the Revolving Credit Facility.

Consolidated EBITDA is presented herein because it is a material component of the leverage ratio contained in our Revolving Credit Agreement. Non-compliance with the leverage ratio could result in the inability to use our Revolving Credit Facility, which could have a material adverse effect on our results of operations, financial position and cash flow. Consolidated EBITDA does not represent net income or cash from operating activities as those terms are defined by U.S. GAAP and does not necessarily indicate whether cash flows will be sufficient to fund cash needs. While Consolidated EBITDA and similar measures are frequently used as measures of operations and the ability to meet debt service requirements, these terms are not necessarily comparable to other similarly titled captions of other companies due to the potential inconsistencies in the method of calculation. Consolidated EBITDA does not reflect the impact of earnings or charges resulting from matters that we may consider not to be indicative of our ongoing operations. In particular, the definition of Consolidated EBITDA in the Revolving Credit Agreement allows us to add back certain non-cash, extraordinary, unusual or non-recurring charges that are deducted in calculating net income. However, these are expenses that may recur, vary greatly and are difficult to predict.

Consolidated EBITDA as presented below is not a measure of the performance of our business and should not be used by investors as an indicator of performance for any future period. Further, our debt instruments require that it be calculated for the most recent four fiscal quarters. As a result, the measure can be disproportionately affected by a particularly strong or weak quarter. Further, it may not be comparable to the measure for any subsequent four quarter period or any complete fiscal year. In addition, our debt instruments require that the leverage ratio be calculated on a pro forma basis for certain transactions including acquisitions as if such transactions had occurred on the first date of the measurement period and may include expected cost savings and synergies resulting from or related to any such transaction. There can be no assurances that any such cost savings or synergies will be achieved in full.

The following is a reconciliation of net loss, which is a U.S. GAAP measure of our operating results, to Consolidated EBITDA as defined, and the calculation of the Consolidated Funded Indebtedness to Consolidated EBITDA ratio, which we refer to as the Leverage Ratio, under our Revolving Credit Agreement for the most recently ended four fiscal quarters, or twelve months ended March 31, 2014. The terms and related calculations are defined in the Revolving Credit Agreement. All amounts in the reconciliation below reflect WMG Acquisition Corp. (in millions, except ratios):

	Twelve Months Ended March 31, 2014		
Net Loss	$	(192	)

Income tax expense		(30)
Interest expense, net		189
Depreciation and amortization		294
Restructuring costs (a)		53
Net hedging and foreign exchange losses (b)		13
Management fees (c)		9
Transaction costs (d)		85
Business optimization expenses (e)		14
Pro forma savings (f)		53
Loss on extinguishment of debt (g)		2
Share-based compensation expense (h)		18
Other non-cash charges (i)		4
Consolidated EBITDA	$	512
Pro forma impact of specified transactions (j)		54
Pro Forma Consolidated EBITDA	$	566
Consolidated Funded Indebtedness (k)	$	3,001
Leverage Ratio (l)		5.04x

(a) Reflects severance costs and other restructuring related expenses.
(b) Reflects net losses from hedging activities and realized losses due to foreign exchange.
(c) Reflects management fees paid to Access, including an annual fee and related expenses (excludes expenses reimbursed related to certain consultants with full-time roles at the Company).
(d) Reflects costs mainly related to the Company's participation in the EMI sales process, including the subsequent regulatory review, as well as other integration and other nonrecurring costs related to the PLG Acquisition.
(e) Reflects primarily costs associated with IT systems updates.
(f) Reflects net cost savings and synergies projected to result from actions taken or expected to be taken no later than twelve (12) months after the end of such period (calculated on a pro forma basis as though such cost savings and synergies had been realized on the first day of the period for which Consolidated EBITDA is being determined), net of the amount of actual benefits realized during such period from such actions during the twelve months ended March 31, 2014 as well as expected pro forma savings related to our acquisition of PLG. Pro forma savings reflected in the table above related to PLG reflect a portion, approximately $53 million, of previously announced targeted savings following the PLG Acquisition of approximately $70 million (less already achieved savings of approximately $17 million).
(g) Reflects the loss incurred on the early extinguishment of our debt incurred as part of the June 2013 debt repayment.
(h) Reflects compensation expense related to the Warner Music Group Corp. Senior Management Free Cash Flow Plan.
(i) Reflects all non-cash charges not included in other items above, including but not limited to impairment and purchase accounting charges.
(j) Reflects the $54 million impact for the PLG Acquisition, as if the specified transaction had occurred on the first day of the March 31, 2014 measurement period. This amount does not include the actual results related to PLG already included in the Consolidated Statements of Operations for the three or six months ended March 31, 2014 as set forth in Note 4 to the Consolidated Interim Financial Statements. This amount also does not include targeted savings related to PLG, which are included in (f) above. Including those targeted savings, reflects the total specified transaction adjustment related to PLG of $107 million.
(k) Reflects the pro forma principal balance of external debt at Acquisition Corp of $2.9 billion as if the 2014 Refinancing occurred on the first day of the March 31, 2014 measurement period, plus the annualized daily revolver borrowings of $53 million, plus contractual obligations of deferred purchase price of $7 million, plus contingent consideration related to acquisitions of $11 million, plus the implied principal component under capital lease obligation of $21 million.
(l) Reflects the ratio of Consolidated Funded Indebtedness to Consolidated EBITDA for the twelve months ended March 31, 2014. This is calculated net of cash and cash equivalents of the Company as of March 31, 2014 not exceeding $150 million. If the outstanding aggregate principal amount of borrowings under our New Revolving Credit Facility is greater than $30 million at the end of a fiscal quarter, the maximum leverage ratio permitted under our New Revolving Credit Facility was 5.75x as of the end of any remaining fiscal quarter in fiscal 2014. The Company’s New Revolving Credit Facility does not impose any “leverage ratio” restrictions on the Company when the aggregate principal amount of borrowings under the new revolving credit facility is less than $30 million at the end of a fiscal quarter.

Summary

Management believes that funds generated from our operations and borrowings under our Revolving Credit Facility will be sufficient to fund our debt service requirements, working capital requirements and capital expenditure requirements for the foreseeable future. We also have additional borrowing capacity under our indentures and Term Loan Facility. However, our ability to continue to fund these items and to reduce debt may be affected by general economic, financial, competitive, legislative and regulatory factors, as well as other industry-specific factors such as the ability to control music piracy and the continued transition from physical to digital sales in the recorded music business. We or any of our affiliates may also, from time to time depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to prepay outstanding debt or repurchase our or Holdings' outstanding debt securities open market purchases, privately negotiated purchases or otherwise. The amounts involved in any such transactions, individually or in the aggregate, may be material and may be funded from available cash or from additional borrowings. In addition, we may from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to refinance our Senior Credit Facilities or our, or Holdings', outstanding debt securities with existing cash and/or with funds provided from additional borrowings.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As discussed in Note 16 to our audited consolidated financial statements for the fiscal year ended September 30, 2013, we are exposed to market risk arising from changes in market rates and prices, including movements in foreign currency exchange rates and interest rates. As of March 31, 2014, other than as described below, there have been no material changes to the Company's exposure to market risk since September 30, 2013.

Foreign Currency Risk

We have transactional exposure to changes in foreign currency exchange rates relative to the U.S. dollar due to the global scope of our operations. We use foreign exchange contracts, primarily to hedge the risk that unremitted or future royalties and license fees owed to our 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. We focus on managing the level of exposure to the risk of foreign currency exchange rate fluctuations on our major currencies, which include the British pound sterling, euro, Japanese yen, Canadian dollar, Swedish krona and Australian dollar. 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. Subsequent to March 31, 2014, certain of our foreign exchange contracts expired and were renewed with new foreign exchange contracts with similar features.

The fair value of foreign exchange contracts is subject to changes in foreign currency exchange rates. For the purpose of assessing the specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments. For foreign exchange forward contracts outstanding at March 31, 2014, assuming a hypothetical 10% depreciation of the U.S. dollar against foreign currencies from prevailing foreign currency exchange rates and assuming no change in interest rates, the fair value of the foreign exchange forward contracts would have decreased by $2.4 million. Because our foreign exchange contracts are entered into for hedging purposes, these losses would be largely offset by gains on the underlying transactions.

Interest Rate Risk

We 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. As such, we are exposed to changes in interest rates. At March 31, 2014, 55% of the Company’s debt was at a fixed rate. In addition, at March 31, 2014, all of our floating rate debt under our Senior Term Loan Facility was subject to a LIBOR floor of 1.0%, which is in excess of the current LIBOR rate. The LIBOR floor has effectively turned these LIBOR loans into fixed-rate debt until such time as the LIBOR rate moves higher than the floor.

Based on the level of interest rates prevailing at March 31, 2014, the fair value of the fixed-rate and variable rate debt was approximately $3.052 billion. Further, based on the amount of its fixed-rate debt, a 25 basis point increase or decrease in the level of interest rates would increase or decrease the fair value of the fixed-rate debt by approximately $9 million. Due to the LIBOR floor of 1%, a 25 basis point increase or decrease in the level of interest rates would have no impact on the fair value of the Company’s variable rate debt. This potential increase or decrease is based on the simplified assumption that the level of fixed-rate debt remains constant with an immediate across the board increase or decrease in the level of interest rates with no subsequent changes in rates for the remainder of the period.

ITEM 4. CONTROLS AND PROCEDURES

Certification

The certifications of the principal executive officer and the principal financial officer (or persons performing similar functions) required by Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended (the “Certifications”) are filed as exhibits to this report. This section of the report contains the information concerning the evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) (“Disclosure Controls”) and changes to internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) (“Internal Controls”) referred to in the Certifications and this information should be read in conjunction with the Certifications for a more complete understanding of the topics presented.

Introduction

The Securities and Exchange Commission's rules define "disclosure controls and procedures" as controls and procedures that are designed to ensure that information required to be disclosed by public companies in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by public companies in the reports that they file or submit under the Exchange Act is accumulated and communicated to a company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Securities and Exchange Commission's rules define "internal control over financial reporting" as a process designed by, or under the supervision of, a public company's principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, or U.S. GAAP, including those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management, including the principal executive officer and principal financial officer, does not expect that our Disclosure Controls or Internal Controls will prevent or detect all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the limitations in any and all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. Further, the design of any control system is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected even when effective Disclosure Controls and Internal Controls are in place.

Evaluation of Disclosure Controls and Procedures

Based on our management's evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our Disclosure Controls are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act will be recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, including that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our Internal Controls over financial reporting or other factors during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our Internal Controls.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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. On January 23, 2014, the Court granted preliminary approval of the settlement. As part of the settlement, the Company will make available $11.5 million (less attorneys' fees, costs, and costs of claims administration and class notice) to compensate class members for past sales of downloads and ringtones. 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.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Quarterly Report on Form 10-Q, certain risk factors should be considered carefully in evaluating our business. The risks and uncertainties described below may not be the only ones facing us. Additional risks and uncertainties that we do not currently know about or that we currently believe are immaterial may also adversely impact our business operations. If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer.

Risks Related to Our Business

The recorded music industry has been declining and may continue to decline, which may adversely affect our prospects and our results of operations.

The industry has experienced negative growth rates on a global basis since 1999 and the worldwide recorded music market has contracted considerably. Illegal downloading of music, CD-R piracy, industrial piracy, economic recession, bankruptcies of record wholesalers and retailers, and growing competition for consumer discretionary spending and retail shelf space may have all contributed to the decline in the recorded music industry. Additionally, the period of growth in recorded music sales driven by the introduction and penetration of the CD format has long ended. While CD sales still generate a significant portion of the recorded music revenues globally, CD sales continue to decline industry-wide and we expect that trend to continue. However, new formats for selling recorded music product have been created, including the legal downloading of digital music and the distribution of music on mobile devices and revenue streams from these new channels have emerged. These new digital revenue streams are important as they are partially offsetting declines in physical sales and represent a growing area of our Recorded Music business. In addition, we are also taking steps to broaden our revenue mix into growing areas of the music business, including sponsorship, fan clubs, artist websites, merchandising, touring, concert promotion, ticketing and artist management. As our expansion into these new areas is fairly recent, we cannot determine how our expansion into these new areas will impact our business. While there are signs of industry stabilization, results vary by territory and continue to fluctuate year to year. While IFPI reported that global recorded music industry revenues grew 0.2% in 2012, the first time in 13 years the industry grew year-over-year, global industry revenue dropped 3.9% in 2013 as a result of steep declines in Japan. Excluding Japan, global industry revenue was largely flat in 2013, down 0.1%. IFPI also noted that in 2013, Europe saw growth for the first time in 12 years, with all five top markets—France, Germany, Italy, Netherlands and the UK—seeing an increase in revenues. According to the RIAA, the estimated retail value of the U.S. recorded music industry unit sales declined by only 0.3% in 2013, and declined by 0.9% in 2012, two consecutive years which show a marked improvement versus a decade of steep declines prior to 2011. However, the industry continues to be negatively impacted as a result of ongoing digital piracy and the transition from physical to digital sales in the recorded music business. Accordingly, the recorded music industry performance may continue to negatively impact our operating results. While it is believed within the recorded music industry that growth in digital sales will re-establish a growth pattern for recorded music sales, the timing of the recovery cannot be established with accuracy nor can it be determined how these changes will affect individual markets. A declining recorded music industry is likely to lead to reduced levels of revenue and operating income generated by our Recorded Music business. Additionally, a declining recorded music industry is also likely to have a negative impact on our Music Publishing business, which generates a significant portion of its revenues from mechanical royalties attributable to the sale of music in CD and other physical recorded music formats. Digital downloads remain a key revenue stream for the recorded music industry. According to IFPI, digital downloads accounted for 67% of digital revenues in 2013. Streaming revenue, which includes revenue from subscription services, accounted for 27% of digital revenues in 2013, up from 14% in 2011. Although revenues from digital downloads fell slightly by 2.1% in 2013, the decline was offset by an increase in streaming revenue, helping digital revenues grow by 4.3%. We believe these trends have far more to do with the increase in Google’s Android device user base as compared to Apple’s iOS device user base than they have to do with streaming services “cannibalizing” download services. Streaming models comprise a range of margins. For some streaming models, our margins are superior to those for downloads and for others, our margins are slightly less. We expect these trends to continue to impact our results for the foreseeable future.

There may be downward pressure on our pricing and our profit margins and reductions in shelf space.

There are a variety of factors that could cause us to reduce our prices and reduce our profit margins. They are, among others, price competition from the sale of motion pictures and videogames in physical and digital formats, the negotiating leverage of mass merchandisers, big-box retailers and distributors of digital music, the increased costs of doing business with mass merchandisers and big-box retailers as a result of complying with operating procedures that are unique to their needs and any changes in costs associated with new digital formats. In addition, we are currently dependent on a small number of leading digital music services, which allows them to significantly influence the prices we can charge in connection with the distribution of digital music. Over the course of the last decade, U.S. mass-market and other stores' share of U.S. physical music sales has continued to grow. While we cannot predict how future competition will impact music retailers, as the music industry continues to transform it is possible that the share of music sales by a small number of leading mass-market retailers such as Wal-Mart and Target and digital music services such as Apple's iTunes and Google Play will continue to grow, which could further increase their negotiating leverage and put pressure on profit margins. See "—We are substantially dependent on a limited number of digital music services, in particular Apple's iTunes Music Store, for the online sale of our music recordings and they are able to significantly influence the pricing structure for online music stores."

Our prospects and financial results may be adversely affected if we fail to identify, sign and retain artists and songwriters and by the existence or absence of superstar releases and by local economic conditions in the countries in which we operate.

We are dependent on identifying, signing and retaining recording artists with long-term potential, whose debut albums are well received on release, whose subsequent albums are anticipated by consumers and whose music will continue to generate sales as part of our catalog for years to come. The competition among record companies for such talent is intense. Competition among record companies to sell records is also intense and the marketing expenditures necessary to compete have increased as well. We are also dependent on signing and retaining songwriters who will write the hit songs of today and the classics of tomorrow. Our competitive position is dependent on our continuing ability to attract and develop artists whose work can achieve a high degree of public acceptance. Our financial results may be adversely affected if we are unable to identify, sign and retain such artists under terms that are economically attractive to us. Our financial results may also be affected by the existence or absence of superstar artist releases during a particular period. Some music industry observers believe that the number of superstar acts with long-term appeal, both in terms of catalog sales and future releases, has declined in recent years. Additionally, our financial results are generally affected by the worldwide economic and retail environment, as well as the appeal of our Recorded Music catalog and our Music Publishing library.

We may have difficulty addressing the threats to our business associated with home copying and digital downloading.

The combined effect of the decreasing cost of electronic and computer equipment and related technology such as CD burners and the conversion of music into digital formats have made it easier for consumers to obtain and create unauthorized copies of our recordings in the form of, for example, "burned" CDs and MP3 files. For example, about 95% of the music downloaded in 2008, or more than 40 billion files, were illegal and not paid for, according to IFPI's 2009 Digital Music Report. Separately, data provided by comScore/Nielsen and cited by IFPI in IFPI's 2014 Digital Music Report indicates that more than a quarter of Internet users globally (26%) still access unauthorized digital sites/services on desktop-based devices on a regular basis. In addition, while growth of music-enabled mobile consumers offers distinct opportunities for music companies such as ours, it also opens the market up to risks from behaviors such as "sideloading" and mobile app-based downloading of unauthorized content and illegitimate user-created ringtones. A substantial portion of our revenue comes from the sale of audio products that are potentially subject to unauthorized consumer copying and widespread digital dissemination without an economic return to us. The impact of digital piracy on legitimate music sales is hard to quantify but we believe that illegal filesharing has a substantial negative impact on music sales. We are working to control this problem in a variety of ways including by litigation, by lobbying governments for new, stronger copyright protection laws and more stringent enforcement of current laws, through graduated response programs achieved through cooperation with ISPs and legislation being advanced or considered in many countries, through technological measures and by enabling legitimate new media business models. We cannot give any assurances that such measures will be effective. If we fail to obtain appropriate relief through the judicial process or the complete enforcement of judicial decisions issued in our favor (or if judicial decisions are not in our favor), if we are unsuccessful in our efforts to lobby governments to enact and enforce stronger legal penalties for copyright infringement or if we fail to develop effective means of protecting our intellectual property (whether copyrights or other rights such as patents, trademarks and trade secrets) or our entertainment-related products or services, our results of operations, financial position and prospects may suffer.

Organized industrial piracy may lead to decreased sales.

The global organized commercial pirate trade is a significant threat to content industries, including the music sector. A 2011 study by Frontier Economics cited by IFPI, estimates that digitally pirated music, movies and software is valued at $30 billion to $75 billion and IFPI’s 2014 Digital Music Report valued advertising revenues generated by piracy sites at $227 million. In addition, a 2010 economic study conducted by Tera Consultants in Europe found that if left unabated, digital piracy could result in an estimated loss of 240 billion Euros in retail revenues for the creative industries—including music—in Europe over the period from 2008 to 2015.

Unauthorized copies and piracy have contributed to the decrease in the volume of legitimate sales. They have had, and may continue to have, an adverse effect on our business.

Legitimate channels for digital distribution of our creative content are a fairly recent development, and their impact on our business is unclear and may be adverse.

We have positioned ourselves to take advantage of online and mobile technology as a sales distribution channel and believe that the continued development of legitimate channels for digital music distribution holds promise for us in the future. Digital revenue streams of all kinds are important to offset continued declining revenue from physical CD sales industry-wide over time. However, legitimate channels for digital distribution are a fairly recent development and we cannot predict their impact on our business. In digital formats, certain costs associated with physical products such as manufacturing, distribution, inventory and return costs do not apply. Partially eroding that benefit are increases in mechanical copyright royalties payable to music publishers that only apply in the digital space. While there are some digital-specific variable costs and infrastructure investments necessary to produce, market and sell music in digital formats, we believe it is reasonable to expect that we will generally derive a higher contribution margin from digital sales than physical sales. However, we cannot be sure that we will generally continue to achieve higher margins from digital sales especially as an ever greater percentage of our digital revenue comes from sources other than downloads. Any legitimate digital distribution channel that does develop may result in lower or less profitable sales for us than comparable physical sales. In addition, the transition to greater sales through digital channels has introduced uncertainty regarding the potential impact of the “unbundling” of the album on our business. It remains unclear how consumer behavior will continue to change when customers are faced with more opportunities to purchase or stream only favorite tracks from a given album rather than purchase the entire album. In addition, if piracy continues unabated and legitimate digital distribution channels fail to continue to gain consumer acceptance, our results of operations could be harmed. Furthermore, as new distribution channels continue to develop, we may have to implement systems to process royalties on new revenue streams for potential future distribution channels that are not currently known. These new distribution channels could also result in increases in the number of transactions that we need to process. If we are not able to successfully expand our processing capability or introduce technology to allow us to determine and pay royalty amounts due on these new types of transactions in a timely manner, we may experience processing delays or reduced accuracy as we increase the volume of our digital sales, which could have a negative effect on our relationships with artists and brand identity.

We are substantially dependent on a limited number of digital music services, in particular Apple’s iTunes Music Store, for the online sale of our music recordings and they are able to significantly influence the pricing structure for online music stores.

We derive an increasing portion of our revenues from sales of music through digital distribution channels. We are currently dependent on a small number of leading digital music services that sell consumers digital music. Currently, the largest U.S. online music store, iTunes, typically charges U.S. consumers prices ranging from $0.69 to $1.29 per single-track download. We have limited ability to increase our wholesale prices to digital service providers for digital downloads as Apple’s iTunes controls 65%-75% of the legitimate digital music track download business in the United States according to third-party estimates. If Apple’s iTunes were to adopt a lower pricing model or if there were structural change to other download pricing models, we may receive substantially less per download for our music, which could cause a material reduction in our revenues, unless it is offset by a corresponding increase in the number of downloads. Additionally, Apple’s iTunes and other digital music services at present accept and make available for sale all the recordings that we and other distributors deliver to them. However, if digital music services in the future decide to limit the types or amount of music they will accept from music-based content owners like us, our revenues could be significantly reduced.

Our involvement in intellectual property litigation could adversely affect our business.

Our business is highly dependent upon intellectual property, an area that has encountered increased litigation in recent years. If we are alleged to infringe the intellectual property rights of a third party, any litigation to defend the claim could be costly and would divert the time and resources of management, regardless of the merits of the claim. There can be no assurance that we would prevail in any such litigation. If we were to lose a litigation relating to intellectual property, we could be forced to pay monetary damages and to cease the sale of certain products or the use of certain technology. Any of the foregoing may adversely affect our business.

Due to the nature of our business, our results of operations and cash flows may fluctuate significantly from period to period.

Our net sales, operating income and profitability, like those of other companies in the music business, are largely affected by the number and quality of albums that we release or that include musical compositions published by us, timing of release schedules and, more importantly, the consumer demand for these releases. We also make advance payments to recording artists and songwriters, which impact our operating cash flows. The timing of album releases and advance payments is largely based on business and other considerations and is made without regard to the impact of the timing of the release on our financial results. We report results of operations quarterly and our results of operations and cash flows in any reporting period may be materially affected by the timing of releases and advance payments, which may result in significant fluctuations from period to period. For example, in fiscal year 2014, the schedule of our releases is more heavily weighted toward the third and fourth quarters. As a result, we had relatively lower revenues for the first and second quarters. In addition, certain accounting policy differences between us and PLG mean that we recognize related PLG revenue later than under PLG's previous accounting policies, and we expect that such timing differences will impact our results in fiscal 2014.

We may be unable to compete successfully in the highly competitive markets in which we operate and we may suffer reduced profits as a result.

The industries in which we operate are highly competitive, have experienced ongoing consolidation among major music companies, are based on consumer preferences and are rapidly changing. Additionally, they require substantial human and capital resources. We compete with other recorded music companies and music publishers to identify and sign new recording artists and songwriters who subsequently achieve long-term success and to renew agreements with established artists and songwriters. In addition, our competitors may from time to time increase the amounts they spend to lure, or to market and promote, recording artists and songwriters or reduce the prices of their products in an effort to expand market share. We may lose business if we are unable to sign successful recording artists or songwriters or to match the prices of the products offered by our competitors. Our Recorded Music business competes not only with other recorded music companies, but also with the recorded music efforts of live events companies and recording artists who may choose to distribute their own works. Our Music Publishing business competes not only with other music publishing companies, but also with songwriters who publish their own works. Our Recorded Music business is to a large extent dependent on technological developments, including access to and selection and viability of new technologies, and is subject to potential pressure from competitors as a result of their technological developments. For example, our Recorded Music business may be further adversely affected by technological developments that facilitate the piracy of music, such as Internet peer-to-peer filesharing and CD-R activity, by an inability to enforce our intellectual property rights in digital environments and by a failure to develop successful business models applicable to a digital environment. The Recorded Music business also faces competition from other forms of entertainment and leisure activities, such as cable and satellite television, motion pictures and videogames in physical and digital formats.

Consolidation in our industry may materially and adversely affect our ability to compete.

On September 28, 2012, Universal announced that it had closed its acquisition of EMI's recorded music division following clearance of the deal by the U.S. Federal Trade Commission and the European Commission. The acquisition combined the first and fourth largest record companies to increase the size of Universal, which was already the world's largest record company.

On June 29, 2012 Sony Corporation of America (an affiliate of Sony/ATV), in conjunction with the Estate of Michael Jackson, Mubadala Development Company PJSC, Jynwel Capital Limited, the Blackstone Group's GSO Capital Partners LP and David Geffen announced that it had closed its acquisition of EMI's music publishing division following clearance of the deal by the U.S. Federal Trade Commission and the European Commission. The acquisition combined the second and fourth largest music publishing companies to create the world's largest music publishing company.

There may in the future be additional mergers and acquisitions and changes in our industry, including those in which we may in the future participate and those that may be undertaken by others. Universal's acquisition of the recorded music division of EMI and Sony's acquisition of the music publishing division of EMI, as well as any further industry consolidation, have and will continue to substantially alter the competitive landscape, and could materially and adversely affect our ability to compete, as well as our business and results of operations, and result in changes to our corporate or business strategy. We regularly assess and explore our strategic position and ways to enhance our competitiveness, including the possibilities for the acquisition of strategic assets sold by competitors in our industry or our participation in merger activity with other industry participants.

Our business operations in some foreign countries subject us to trends, developments or other events which may affect us adversely.

We are a global company with strong local presences, which have become increasingly important as the popularity of music originating from a country's own language and culture has increased in recent years. Our mix of national and international recording artists and songwriters provides a significant degree of diversification for our music portfolio. However, our creative content does not necessarily enjoy universal appeal. As a result, our results can be affected not only by general industry trends, but also by trends, developments or other events in individual countries, including:

- limited legal protection and enforcement of intellectual property rights;
- restrictions on the repatriation of capital;
- fluctuations in interest and foreign exchange rates;

· differences and unexpected changes in regulatory environment, including environmental, health and safety, local planning, zoning and labor laws, rules and regulations;
· varying tax regimes which could adversely affect our results of operations or cash flows, including regulations relating to transfer pricing and withholding taxes on remittances and other payments by subsidiaries and joint ventures;
· exposure to different legal standards and enforcement mechanisms and the associated cost of compliance;
· difficulties in attracting and retaining qualified management and employees or rationalizing our workforce;
· tariffs, duties, export controls and other trade barriers;
· longer accounts receivable settlement cycles and difficulties in collecting accounts receivable;
· recessionary trends, inflation and instability of the financial markets;
· higher interest rates; and
· political instability.

We may not be able to insure or hedge against these risks, and we may not be able to ensure compliance with all of the applicable regulations without incurring additional costs. Furthermore, financing may not be available in countries with less than investment-grade sovereign credit ratings. As a result, it may be difficult to create or maintain profit-making operations in developing countries.

In addition, our results can be affected by trends, developments and other events in individual countries. There can be no assurance that in the future other country-specific trends, developments or other events will not have such a significant adverse effect on our business, results of operations or financial condition. Unfavorable conditions can depress sales in any given market and prompt promotional or other actions that affect our margins.

Our business may be adversely affected by competitive market conditions and we may not be able to execute our business strategy.

We expect to increase revenues and cash flow through a business strategy which requires us, among other things, to continue to maximize the value of our music assets, to significantly reduce costs to maximize flexibility and adjust to new realities of the market, to continue to act to contain digital piracy and to diversify our revenue streams into growing segments of the music business by entering into expanded-rights deals with recording artists and by operating our artist services businesses and to capitalize on digital distribution and emerging technologies.

Each of these initiatives requires sustained management focus, organization and coordination over significant periods of time. Each of these initiatives also requires success in building relationships with third parties and in anticipating and keeping up with technological developments and consumer preferences and may involve the implementation of new business models or distribution platforms. The results of our strategy and the success of our implementation of this strategy will not be known for some time in the future. If we are unable to implement our strategy successfully or properly react to changes in market conditions, our financial condition, results of operations and cash flows could be adversely affected.

Our ability to operate effectively could be impaired if we fail to attract and retain our executive officers.

Our success depends, in part, upon the continuing contributions of our executive officers, however, there is no guarantee that they will not leave. Some of our executive officers have employments arrangements. We do not have a direct employment arrangement with our CEO and certain of our other executive officers have at-will employment letters. Our CEO and each of our executive officers who have at-will employment letters have elected to participate in the Warner Music Group Corp. Senior Management Cash Flow Plan, and the at-will employment letters were a condition to their participation in the Plan. The loss of the services of any of our executive officers or the failure to attract other executive officers could have a material adverse effect on our business or our business prospects. Our Executive Vice President and Chief Financial Officer, Brian Roberts, has decided that he will be leaving WMG in order to take on new opportunities. He is currently expected to remain in his role until the end of our fiscal year in order to oversee the completion of key projects and ensure a smooth transition once a replacement is found.

A significant portion of our Music Publishing revenues is subject to rate regulation either by government entities or by local third-party collection societies throughout the world and rates on other income streams may be set by governmental proceedings, which may limit our profitability.

Mechanical royalties and performance royalties are the two largest sources of income to our Music Publishing business and mechanical royalties are a significant expense to our Recorded Music business. In the United States, mechanical royalty rates are set pursuant to an administrative rate-setting process under the U.S. Copyright Act, unless rates are determined through voluntary industry negotiations, and performance royalty rates are set by performing rights societies and subject to challenge by performing rights licensees. Mechanical royalties are paid at a penny rate of 9.1 cents per song per unit in the United States for physical formats (e.g., CDs and vinyl albums) and permanent digital downloads (recordings in excess of five minutes attract a higher rate) and 24 cents for ringtones. Outside the United States, mechanical and performance royalty rates are typically negotiated on an industry-wide basis. In most territories outside the United States, mechanical royalties are based on a percentage of wholesale prices for physical product and based on a percentage of consumer prices for digital products. The mechanical and performance royalty rates set pursuant to such processes may adversely affect us by limiting our ability to increase the profitability of our Music Publishing business. If the mechanical royalty rates are set too high it may also adversely affect us by limiting our ability to increase the profitability of our Recorded Music business. In addition, rates our Recorded Music business receives in the United States for, among other sources of income and potential income, webcasting and satellite radio are set by an administrative process under the U.S. Copyright Act unless rates are determined through voluntary industry negotiations. In January 2014, the Copyright Royalty judges announced the commencement of a proceeding to determine the rates and terms for non-interactive webcasting in the United States for the period running from 2016 to 2020. We are unable to predict the outcome of this proceeding, but any reduction in the rates would adversely affect our Recorded Music business. It is important as sales shift from physical to diversified distribution channels that we receive fair value for all of the uses of our intellectual property as our business model now depends upon multiple revenue streams from multiple sources. If the rates for Recorded Music income sources that are established through legally prescribed rate-setting processes are set too low, it could have a material adverse impact on our Recorded Music business or our business prospects.

An impairment in the carrying value of goodwill or other intangible and long-lived assets could negatively affect our operating results and equity.

As of March 31, 2014, we had $1.679 billion of goodwill and $120 million of indefinite-lived intangible assets. Financial Accounting Standards Codification (“ASC”) Topic 350, Intangibles—Goodwill and other (“ASC 350”) requires that we test these assets for impairment annually (or more frequently should indications of impairment arise) by first assessing qualitative factors and then by quantitatively estimating the fair value of each of our reporting units (calculated using a discounted cash flow method) and comparing that value to the reporting units’ carrying value, if necessary. If the carrying value exceeds the fair value, there is a potential impairment and additional testing must be performed. In performing our annual tests and determining whether indications of impairment exist, we consider numerous factors including actual and projected operating results of each reporting unit, external market factors such as market prices for similar assets and trends in the music industry. The Company performed an annual assessment, at July 1, 2013, of the recoverability of its goodwill and indefinite-lived intangibles as of September 30, 2013, noting no instances of impairment. However, future events may occur that could adversely affect the estimated fair value of our reporting units. Such events may include, but are not limited to, strategic decisions made in response to changes in economic and competitive conditions and the impact of the economic environment on our operating results. Failure to achieve sufficient levels of cash flow at our reporting units could also result in impairment charges on goodwill and indefinite-lived intangible assets. If the value of the acquired goodwill or acquired indefinite-lived intangible assets is impaired, our operating results and shareholders’ equity could be adversely affected.

We also had $3.031 billion of definite-lived intangible assets as of March 31, 2014. Financial Accounting Standard Board (“FASB”) ASC Topic 360-10-35, (“ASC 360-10-35”) requires companies to review these assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If similar events occur as enumerated above such that we believe indicators of impairment are present, we would test for recoverability by comparing the carrying value of the asset to the net undiscounted cash flows expected to be generated from the asset. If those net undiscounted cash flows do not exceed the carrying amount, we would perform the next step, which is to determine the fair value of the asset, which could result in an impairment charge. Any impairment charge recorded would negatively affect our operating results and shareholders’ equity.

Unfavorable currency exchange rate fluctuations could adversely affect our results of operations.

The reporting currency for our financial statements is the U.S. dollar. We have substantial assets, liabilities, revenues and costs denominated in currencies other than U.S. dollars. To prepare our consolidated financial statements, we must translate those assets, liabilities, revenues and expenses into U.S. dollars at then-applicable exchange rates. Consequently, increases and decreases in the value of the U.S. dollar versus other currencies will affect the amount of these items in our consolidated financial statements, even if their value has not changed in their original currency. These translations could result in significant changes to our results of operations from period to period. Prior to intersegment eliminations, approximately 60% of our revenues related to operations in foreign territories for the fiscal year ended September 30, 2013. From time to time, we enter into foreign exchange contracts to hedge the risk of unfavorable foreign currency exchange rate movements. As of March 31, 2014, we have hedged a portion of our material foreign currency exposures related to royalty payments remitted between our foreign affiliates and our U.S. affiliates through the end of the current fiscal year.

We may not have full control and ability to direct the operations we conduct through joint ventures.

We currently have interests in a number of joint ventures and may in the future enter into further joint ventures as a means of conducting our business. In addition, we structure certain of our relationships with recording artists and songwriters as joint ventures. We may not be able to fully control the operations and the assets of our joint ventures, and we may not be able to make major decisions or may not be able to take timely actions with respect to our joint ventures unless our joint venture partners agree.

The enactment of legislation limiting the terms by which an individual can be bound under a “personal services” contract could impair our ability to retain the services of key artists.

California Labor Code Section 2855 (“Section 2855”) limits the duration of time any individual can be bound under a contract for “personal services” to a maximum of seven years. In 1987, Subsection (b) was added, which provides a limited exception to Section 2855 for recording contracts, creating a damages remedy for record companies. Legislation was introduced in New York in 2009 to create a statute similar to Section 2855 to limit contracts between artists and record companies to a term of seven years which term could be reduced to three years if the artist was not represented in the negotiation and execution of such contracts by qualified counsel experienced with entertainment industry law and practices. Such legislation could result in certain of our existing contracts with artists being declared unenforceable, or may restrict the terms under which we enter into contracts with artists in the future, either of which could adversely affect our results of operations. There is no assurance that California will not introduce legislation in the future seeking to repeal Subsection (b). The repeal of Subsection (b) and/or the passage of legislation similar to Section 2855 by other states could materially affect our results of operations and financial position.

We face a potential loss of catalog to the extent that our recording artists have a right to recapture rights in their recordings under the U.S. Copyright Act.

The U.S. Copyright Act provides authors (or their heirs) a right to terminate U.S. licenses or assignments of rights in their copyrighted works in certain circumstances. This right does not apply to works that are “works made for hire.” Since the effective date of U.S. federal copyright protection for sound recordings (February 15, 1972), virtually all of our agreements with recording artists provide that such recording artists render services under a work-made-for-hire relationship. A termination right exists under the U.S. Copyright Act for U.S. rights in musical compositions that are not “works made for hire.” If any of our commercially available sound recordings were determined not to be “works made for hire,” then the recording artists (or their heirs) could have the right to terminate the U.S. federal copyright rights they granted to us, generally during a five-year period starting at the end of 35 years from the date of release of a recording under a post-1977 license or assignment (or, in the case of a pre-1978 grant in a pre-1978 recording, generally during a five-year period starting at the end of 56 years from the date of copyright). A termination of U.S. federal copyright rights could have an adverse effect on our Recorded Music business. From time to time, authors (or their heirs) have the opportunity to terminate our U.S. rights in musical compositions. However, we believe the effect of any potential termination is already reflected in the financial results of our Music Publishing business.

If we acquire, combine with or invest in other businesses, we will face certain risks inherent in such transactions.

We have in the past considered and will continue, from time to time, to consider, opportunistic strategic transactions, which could involve acquisitions, combinations or dispositions of businesses or assets, or strategic alliances or joint ventures with companies engaged in businesses that are similar or complementary to ours. Any such strategic combination could be material, be difficult to implement, disrupt our business or change our business profile significantly.

Any future strategic transaction could involve numerous risks, including:

- potential disruption of our ongoing business and distraction of management;
- potential loss of recording artists or songwriters from our rosters;
- difficulty integrating the acquired businesses or segregating assets to be disposed of;
- exposure to unknown and/or contingent or other liabilities, including litigation arising in connection with the acquisition, disposition and/or against any businesses we may acquire;

- reputational or other damages to our business as a result of a failure to consummate such a transaction for, among other reasons, failure to gain anti-trust approval; and
- changing our business profile in ways that could have unintended consequences.

If we enter into significant strategic transactions in the future, related accounting charges may affect our financial condition and results of operations, particularly in the case of any acquisitions. In addition, the financing of any significant acquisition may result in changes in our capital structure, including the incurrence of additional indebtedness. Conversely, any material disposition could reduce our indebtedness or require the amendment or refinancing of our outstanding indebtedness or a portion thereof. We may not be successful in addressing these risks or any other problems encountered in connection with any strategic transactions. We cannot assure you that if we make any future acquisitions, investments, strategic alliances or joint ventures or enter into any business combination that they will be completed in a timely manner, or at all, that they will be structured or financed in a way that will enhance our creditworthiness or that they will meet our strategic objectives or otherwise be successful. We also may not be successful in implementing appropriate operational, financial and management systems and controls to achieve the benefits expected to result from these transactions. Failure to effectively manage any of these transactions could result in material increases in costs or reductions in expected revenues, or both. In addition, if any new business in which we invest or which we attempt to develop does not progress as planned, we may not recover the funds and resources we have expended and this could have a negative impact on our businesses or our company as a whole.

While we have completed our recent acquisition of PLG and we have begun to integrate PLG into our operations, the PLG Acquisition still presents many of the risks related to acquisitions described above. We continue to integrate PLG into our business and the associated integration costs and our investments in PLG have been higher than we anticipated at the time of the PLG Acquisition, primarily as a result of unexpected delays in completing integration in certain jurisdictions. In addition, certain key PLG releases will be delayed to late fiscal 2014 or to fiscal 2015, which will adversely impact our revenues and results of operations for fiscal 2014.

We have outsourced our information technology infrastructure and certain finance and accounting functions and may outsource other back-office functions, which will make us more dependent upon third parties.

In an effort to make our information technology, or IT, more efficient and increase our IT capabilities and reduce potential disruptions, as well as generate cost savings, we signed a contract during fiscal year 2009 with a third-party service provider to outsource a significant portion of our IT infrastructure functions. This outsourcing initiative was a component of our ongoing strategy to monitor our costs and to seek additional cost savings. As a result, we rely on third parties to ensure that our IT needs are sufficiently met. This reliance subjects us to risks arising from the loss of control over IT processes, changes in pricing that may affect our operating results, and potentially, termination of provisions of these services by our supplier. In addition, in an effort to make our finance and accounting functions more efficient, as well as generate cost savings, we signed a contract during fiscal year 2009 with a third-party service provider to outsource certain finance and accounting functions. A failure of our service providers to perform services in a satisfactory manner may have a significant adverse effect on our business. We may outsource other back-office functions in the future, which would increase our reliance on third parties.

Additionally, we are currently in the process of implementing substantial changes to our IT system. We may not be able to successfully implement these systems in an effective manner. In addition, we may incur significant increases in costs and encounter extensive delays in the implementation and rollout of our new IT system. If there are technological impediments, unforeseen complications, errors or breakdowns in implementing this new core operating system or if this new core operating system does not meet the requirements of our customers, our business, financial condition, results of operations or customer perceptions may be adversely affected.

We have engaged in substantial restructuring activities in the past, and may need to implement further restructurings in the future and our restructuring efforts may not be successful or generate expected cost savings.

The recorded music industry continues to undergo substantial change. These changes continue to have a substantial impact on our business. See "—The recorded music industry has been declining and may continue to decline, which may adversely affect our prospects and our results of operations." Following the 2004 acquisition of substantially all of the interests of the recorded music and music publishing business of Time Warner, we implemented a broad restructuring plan in order to adapt our cost structure to the changing economics of the music industry. Since then, we have continued to shift resources from our physical sales channels to efforts focused on digital distribution, emerging technologies and other new revenue streams. In addition, in order to help mitigate the effects of the recorded music transition, we continue our efforts to reduce overhead and manage our variable and fixed-cost structure to minimize any impact. In addition, as PLG has meaningful operational overlap with our existing business, we currently believe there are potential cost savings and other synergies of approximately $70 million available in connection with the PLG Acquisition. However, there can be no assurances that these cost savings and other synergies will be achieved in full.

We cannot be certain that we will not be required to implement further restructuring activities, make additions or other changes to our management or workforce based on other cost reduction measures or changes in the markets and industry in which we compete. Our inability to structure our operations based on evolving market conditions could impact our business. Restructuring activities can create unanticipated consequences and negative impacts on the business, and we cannot be sure that any future restructuring efforts will be successful or generate expected cost savings.

Access, which indirectly owns all of our outstanding capital stock, controls our company and may have conflicts of interest with the holders of our debt or us in the future. Access may also enter into, or cause us to enter into, strategic transactions that could change the nature or structure of our business, capital structure or credit profile.

As a result of the Merger, affiliates of Access indirectly own all of our common stock, and the actions that Access undertakes as our sole ultimate shareholder may differ from or adversely affect the interests of debt holders. Because Access ultimately controls our voting shares and those of all of our subsidiaries, it has the power, among other things, to affect our legal and capital structure and our day-to-day operations, as well as to elect our directors and those of our subsidiaries, to change our management and to approve any other changes to our operations. In addition, Access sets the compensation for Stephen Cooper, our CEO, pursuant to an arrangement between Mr. Cooper and Access, and we reimburse Access for any compensation paid to Mr. Cooper pursuant to the Management Agreement. Access also provides us with financial, investment banking, management, advisory and other services pursuant to the Management Agreement, for which we pay Access a specified annual fee, plus expenses, and a specified transaction fee for certain types of transactions completed by Holdings or one or more of its subsidiaries, plus expenses. Access also has the power to direct us to engage in strategic transactions, with or involving other companies in our industry, including acquisitions, combinations or dispositions, and the acquisition of certain assets that may become available for purchase, and any such transaction could be material. Any such transaction would carry the risks set forth above under "—If we acquire, combine with or invest in other businesses, we will face certain risks inherent in such transactions."

Additionally, Access is in the business of making investments in companies and is actively seeking to acquire interests in businesses that operate in our industry and may compete, directly or indirectly, with us. Access may also pursue acquisition opportunities that may be complementary to our business, which could have the effect of making such acquisition opportunities unavailable to us. Access could elect to cause us to enter into business combinations or other transactions with any business or businesses in our industry that Access may acquire or control, or we could become part of a group of companies organized under the ultimate common control of Access that may be operated in a manner different from the manner in which we have historically operated. Any such business combination transaction could require that we or such group of companies incur additional indebtedness, and could also require us or any acquired business to make divestitures of assets necessary or desirable to obtain regulatory approval for such transaction. The amounts of such additional indebtedness, and the size of any such divestitures, could be material. Access may also from time to time purchase outstanding debt securities that we issued, and could also subsequently sell any such debt securities. Any such purchase or sale may affect the value of, trading price or liquidity of our debt securities.

Finally, because neither we nor our parent company have any securities listed on a securities exchange, we are not subject to certain of the corporate governance requirements of any securities exchange, including any requirement to have any independent directors.

Our reliance on one company as the primary supplier for the manufacturing, packaging and physical distribution of our products in the United States and Canada and part of Europe could have an adverse impact on our ability to meet our manufacturing, packaging and physical distribution requirements.

Cinram International Inc. (collectively, with its affiliates and subsidiaries, "Cinram") has been our primary supplier for the manufacturing, packaging and physical distribution of our products in the United States and Canada and portions of Europe. In April 2012, in connection with its earnings report, Cinram described certain events and conditions that indicated the existence of a material uncertainty that may have cast significant doubt about Cinram's ability to continue as a going concern, including the breach of certain of the financial covenants in its senior credit agreements. Subsequently, Cinram sold its core business in North America and Europe to the Najafi Companies. Cinram continues to provide us with manufacturing, packaging and physical distribution services. However, any future inability of Cinram to provide services due to financial distress, refinancing issues or otherwise could require us to switch to substitute suppliers of these services. As Cinram continues to be our primary supplier of manufacturing and distribution services in the United States, Canada and portions of Europe, our continued ability to meet our manufacturing, packaging and physical distribution requirements in those territories depends largely on Cinram's continued successful operation in accordance with the service level requirements mandated by us in our service agreements. If, for any reason, Cinram were to fail to meet contractually required service levels, or were unable to otherwise continue to provide services, we may have difficulty satisfying our commitments to our wholesale and retail customers in the short term until we more fully transitioned to an alternate provider, which could have an adverse impact on our revenues.

Evolving regulations concerning data privacy may result in increased regulation and different industry standards, which could increase the costs of operations or limit our activities.

We engage in a wide array of online activities and are thus subject to a broad range of related laws and regulations including, for example, those relating to privacy, consumer protection, data retention and data protection, online behavioral advertising, geo-location tracking, text messaging, e-mail advertising, mobile advertising, content regulation, defamation, age verification, the protection of children online, social media and other Internet, mobile and online-related prohibitions and restrictions. The regulatory framework for privacy and data security issues worldwide has become increasingly burdensome and complex, and is likely to continue to be so for the foreseeable future. Practices regarding the collection, use, storage, transmission, security and disclosure of personal information by companies operating over the Internet and mobile platforms are receiving ever-increasing public scrutiny. The U.S. government, including Congress, the Federal Trade Commission and the Department of Commerce, has announced that it is reviewing the need for even greater regulation for the collection of information concerning consumer behavior on the Internet and mobile platforms, including regulation aimed at restricting certain targeted advertising practices, the use of location data and disclosures of privacy practices in the online and mobile environments, including with respect to online and mobile applications State governments are engaged in similar legislative and regulatory activities. In addition, the European Union is in the process of proposing reforms to its existing data protection legal framework, which are likely to result in a greater compliance burden for companies with consumers in Europe. Globally, many government and consumer agencies have also called for new regulation and changes in industry practices with respect to information collected from consumers.

In October 2012, one of our subsidiaries entered into a consent agreement to settle certain Federal Trade Commission charges that it violated the Children’s Online Privacy Protection Act (“COPPA”) by improperly collecting personal information from children under 13 without their parents’ verifiable consent. While our subsidiary neither admitted nor denied the agency’s allegations, the settlement imposed a $1 million civil penalty, barred future violations of COPPA, and required that our subsidiary delete information allegedly collected in violation of COPPA, among other requirements.

The Federal Trade Commission adopted certain revisions to its rule promulgated pursuant to COPPA, effective as of July 1, 2013, that may impose greater compliance burdens on us. COPPA imposes a number of obligations, such as obtaining verifiable parental permission, on operators of websites, apps and other online services to the extent they collect certain information from children who are under 13 years of age. The changes broaden the applicability of COPPA, including by expanding the definition of “personal information” subject to the rule’s parental consent and other obligations.

In addition, our business, including our ability to operate and expand internationally, could be adversely affected if laws or regulations are adopted, interpreted, or implemented in a manner that is inconsistent with our current business practices and that require changes to these practices. Therefore, our business could be harmed by any significant change to applicable laws, regulations or industry practices regarding the collection, use or disclosure of customer data, or regarding the manner in which the express or implied consent of consumers for such collection, use and disclosure is obtained. Such changes may require us to modify our operations, possibly in a material manner, and may limit our ability to develop new products, services, mechanisms, platforms and features that make use of data regarding our customers and potential customers.

If we or our service providers do not maintain the security of information relating to our customers, employees and vendors, security information breaches through cyber security attacks or otherwise could damage our reputation with customers, employees and vendors, and we could incur substantial additional costs and become subject to litigation. Moreover, even if we or our service providers maintain such security, such breaches remain a possibility due to the fact that no data security system is immune from attacks or other incidents.

We receive certain personal information about our customers and potential customers, and we also receive personal information concerning our employees, artists and vendors. In addition, our online operations depend upon the secure transmission of confidential information over public networks. We maintain security measures with respect to such information, but despite these measures, we may be vulnerable to security breaches by computer hackers and others that attempt to penetrate the security measures that we have in place. A compromise of our security systems (through cyber-attacks or otherwise which are rapidly evolving and sophisticated) that results in personal information being obtained by unauthorized persons could adversely affect our reputation with our customers, potential customers, employees, artists and vendors, as well as our operations, results of operations, financial condition and liquidity, and could result in litigation against us or the imposition of governmental penalties. In addition, a security breach could require that we expend significant additional resources related to our information security systems and could result in a disruption of our operations.

We increasingly rely on third-party data storage providers, including cloud storage solution providers, resulting in less direct control over our data. Such third parties may also be vulnerable to security breaches and compromised security systems, which could adversely affect our reputation.

Risks Related to our Leverage

Our substantial leverage on a consolidated basis could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and prevent us from meeting our obligations under our indebtedness.

We are highly leveraged. As of March 31, 2014, our total consolidated indebtedness, including the current portion, was $2.869 billion. In addition, we would have been able to borrow up to $150 million under our Revolving Credit Facility (not giving effect to letters of credit outstanding of approximately $11 million as of March 31, 2014). As of March 31, 2014, after giving pro forma effect to the 2014 Refinancing, our total consolidated indebtedness would have been $3.052 billion. In addition, we would have been able to borrow up to an additional $150 million under our Revolving Credit Facility (not giving effect to approximately $11 million of letters of credit outstanding).

Our high degree of leverage could have important consequences for our investors. For example, it may:

- make it more difficult for us to make payments on our indebtedness;
- increase our vulnerability to general economic and industry conditions, including recessions and periods of significant inflation and financial market volatility;
- expose us to the risk of increased interest rates because any borrowings we make under the New Senior Credit Facilities will bear interest at variable rates;
- require us to use a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing our ability to fund working capital, capital expenditures and other expenses;
- limit our ability to refinance existing indebtedness on favorable terms or at all or borrow additional funds in the future for, among other things, working capital, acquisitions or debt service requirements;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
- place us at a competitive disadvantage compared to competitors that have less indebtedness; and
- limit our ability to borrow additional funds that may be needed to operate and expand our business.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, subject to the restrictions contained in the indentures governing our outstanding notes as well as under the Senior Credit Facilities. If new indebtedness is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify.

The indentures that govern our outstanding notes and the Senior Credit Facilities contain restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Those covenants include restrictions on our ability to, among other things, incur more indebtedness, pay dividends, redeem stock or make other distributions, make investments, create liens, transfer or sell assets, merge or consolidate and enter into certain transactions with our affiliates. Our failure to comply with those covenants could result in an event of default, which, if not cured or waived, could result in the acceleration of all of our indebtedness. See also "—Our debt agreements contain restrictions that limit our flexibility in operating our business."

We may not be able to generate sufficient cash to service all of our indebtedness, and may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on our financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may not maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

Acquisition Corp. will rely on its subsidiaries to make payments on its borrowings. If these subsidiaries do not dividend funds to Acquisition Corp. in an amount sufficient to make such payments, if necessary in the future, Acquisition Corp. may default under the indentures or credit facilities governing its borrowings, which would result in all such borrowings becoming due and payable. In addition, Holdings, our immediate subsidiary, will rely on our indirect subsidiary Acquisition Corp. and its subsidiaries to make payments on its borrowings. If Acquisition Corp. does not dividend funds to Holdings in an amount sufficient to make such payments, if necessary in the future, Holdings may default under the indenture governing its borrowings, which would result in all such notes becoming due and payable.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

The indentures governing our outstanding notes contain various covenants that limit our ability to engage in specified types of transactions. These covenants limit our ability, Holdings' ability and the ability of our restricted subsidiaries to, among other things:

- incur additional debt or issue certain preferred shares;
- create liens on certain debt;
- pay dividends on or make distributions in respect of our capital stock or make investments or other restricted payments;
- sell certain assets;
- create restrictions on the ability of our restricted subsidiaries to pay dividends to us or make certain other intercompany transfers;
- enter into certain transactions with our affiliates; and
- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets.

In addition, the credit agreements governing the Senior Term Loan Facility and Revolving Credit Facility contain a number of covenants that limit our ability, Holdings' ability and the ability of our restricted subsidiaries to:

- pay dividends on, and redeem and purchase, equity interests;
- make other restricted payments;
- make prepayments on, redeem or repurchase certain debt;
- incur certain liens;
- make certain loans and investments;
- incur certain additional debt;
- enter into guarantees and hedging arrangements;
- enter into mergers, acquisitions and asset sales;
- enter into transactions with affiliates;
- change the business we and our subsidiaries conduct;
- restrict the ability of our subsidiaries to pay dividends or make distributions;
- amend the terms of subordinated debt and unsecured bonds; and
- make certain capital expenditures.

Our ability to borrow additional amounts under the Senior Credit Facilities will depend upon satisfaction of these covenants. Events beyond our control can affect our ability to meet these covenants.

Our failure to comply with obligations under the instruments governing their indebtedness may result in an event of default under such instruments. We cannot be certain that we will have funds available to remedy these defaults. A default, if not cured or waived, may permit acceleration of our indebtedness. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness or will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all.

All of these restrictions could affect our ability to operate our business or may limit our ability to take advantage of potential business opportunities as they arise.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments in recording artists and songwriters, capital expenditures or dividends, or to sell assets, seek additional capital or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The indentures governing our outstanding notes restrict our ability to dispose of assets and use the proceeds from dispositions. We may not be able to consummate those dispositions or to obtain the proceeds which we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due.

Despite our indebtedness levels, we may be able to incur substantially more indebtedness which may increase the risks created by our substantial indebtedness.

We may be able to incur substantial additional indebtedness, including additional secured indebtedness, in the future. The indentures governing our outstanding notes and the credit agreements governing the Senior Term Loan Facility and Revolving Credit Facility will not fully prohibit us, Holdings or our subsidiaries from incurring additional indebtedness under certain circumstances. If we, Holdings or our subsidiaries are in compliance with certain incurrence ratios set forth in such indentures, we, Holdings or our subsidiaries may be able to incur substantial additional indebtedness, which may increase the risks created by our current substantial indebtedness.

Our ability to incur secured indebtedness is subject to compliance with certain secured leverage ratios that are calculated as of the date of incurrence. The amount of secured indebtedness that we are able to incur and the timing of any such incurrence under these ratios vary from time to time and are a function of several variables, including our outstanding indebtedness and our results of operations calculated as of specified dates or for certain periods.

A downgrade, suspension or withdrawal of the rating assigned by a rating agency to us could impact our cost of capital.

Any future lowering of our ratings may make it more difficult or more expensive for us to obtain additional debt financing. Therefore, although reductions in our debt ratings may not have an immediate impact on the cost of debt or our liquidity, they may impact the cost of debt and liquidity over the medium term and future access at a reasonable rate to the debt markets may be adversely impacted.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Guarantee of New Senior Notes

On May 7, 2014, the Company issued a guarantee with respect to the $275 million aggregate principal amount of New Secured Notes and the $660 million aggregate principal amount of New Unsecured Notes issued by Acquisition Corp. on April 9, 2014, whereby it fully and unconditionally guaranteed (the “Guarantee”) the payments of Acquisition Corp. under the New Secured Notes and the New Unsecured Notes.

A copy of the Guarantee is attached as Exhibit 4.1 hereto and incorporated herein by reference. The foregoing description of the Guarantee does not purport to be complete and is qualified in its entirety by reference to the full text of the Guarantee.

Holdings Notes Supplemental Indenture

On May 7, 2014, Holdings entered into the Fifth Supplemental Indenture (the “Holdings Notes Supplemental Indenture”), with Wells Fargo Bank, National Association, as trustee under the Holdings Notes Indenture (the “Holdings Notes Trustee”), which supplements and amends the Holdings Notes Indenture to make certain technical corrections necessary to conform the text of the last paragraph of Section 3.03 of the Holdings Notes Indenture to the corresponding provision of the “Description of Holdings Notes” section of the confidential offering circular, dated July 14, 2011, related to the offering and sale of the Holdings Notes.

This description of the Holdings Notes Supplemental Indenture and related matters is not complete and is qualified in its entirety by the actual terms of the Holdings Notes Supplemental Indenture, a copy of which is incorporated herein by reference and attached hereto as Exhibit 4.2.

ITEM 6. EXHIBITS

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibit No.	Description
4.1	Guarantee, dated May 7, 2014, issued by Warner Music Group Corp., relating to the 5.625% Senior Secured Notes due 2022 and the 6.750% Senior Notes due 2022. *
4.2	Fifth Supplemental Indenture, dated as of May 7, 2014, between WMG Holdings Corp. and Wells Fargo Bank, National Association, as trustee, relating to the 13.75% Senior Notes due 2019. *
10.1	Form of Award Agreement for 2014 Additional Unit Allocation under Warner Music Group Corp. Senior Management Free Cash Flow Plan. † *
10.2	Second Amendment to Credit Agreement, dated as of March 25, 2014, among WMG Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, issuing bank and lender, relating to a revolving credit facility (1)
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, as amended*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-15(a) of the Securities Exchange Act of 1934, as amended*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.1	Financial statements from the Quarterly Report on Form 10-Q of Warner Music Group Corp. for the quarter ended March 31, 2014, filed on May 8, 2014, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Cash Flows, (iv) Consolidated

Statements of Equity Deficit and (v) Notes to Consolidated Interim Audited Financial Statements*

* Filed herewith.

** This certification will be treated as "accompanying" this Quarterly Report on Form 10-Q and not "filed" as part of such report for purposes of Section 18 of the Securities Exchange Act, as amended, or otherwise subject the liability of Section 18 of the Securities Exchange Act of 1934, as amended, and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the registrant specifically incorporates it by reference.

(1) Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on April 10, 2014 (File No. 001-32502).

† Represents management contract, compensatory plan or arrangement in which directors and/or executive officers are eligible to participate.

SIGNATURES

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

May 8, 2014

WARNER MUSIC GROUP CORP.

By:	/S/ STEPHEN COOPER
Name:	Stephen Cooper
Title:	Chief Executive Officer (Principal Executive Officer)

By:	/S/ BRIAN ROBERTS
Name:	Brian Roberts
Title:	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)