Warner Music Group Corp.
Form 10-Q
August 08, 2017

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission File Number 001-32502

Warner Music Group Corp.

(Exact name of Registrant as specified in its charter)

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

1633 Broadway

New York, NY 10019

(Address of principal executive offices)

(212) 275-2000

(Registrant's telephone number, including area code)

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

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 No

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

There is no public market for the Registrant's common stock. As of August 8, 2017 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 AND SUPPLEMENTARY DATA

Warner Music Group Corp.

Consolidated Balance Sheets (Unaudited)

	June 30, 2017	September 30, 2016
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$567	$ 359
Accounts receivable, net of allowances of $53 million and $52 million	380	329
Inventories	38	41
Royalty advances expected to be recouped within one year	136	128
Prepaid and other current assets	57	51
Total current assets	1,178	908
Royalty advances expected to be recouped after one year	204	196
Property, plant and equipment, net	203	203
Goodwill	1,630	1,627
Intangible assets subject to amortization, net	2,020	2,201
Intangible assets not subject to amortization	117	116
Deferred tax assets, net	59	2
Other assets	68	82
Total assets	$5,479	$ 5,335
Liabilities and Equity		
Current liabilities:		
Accounts payable	$166	$ 204
Accrued royalties	1,248	1,104
Accrued liabilities	286	297
Accrued interest	24	38
Deferred revenue	161	178
Other current liabilities	53	21
Total current liabilities	1,938	1,842
Long-term debt	2,797	2,778
Deferred tax liabilities, net	159	269
Other noncurrent liabilities	260	236
Total liabilities	$5,154	$ 5,125
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	(615)	(715)
Accumulated other comprehensive loss, net	(205)	(218)

Total Warner Music Group Corp. equity	308	195
Noncontrolling interest	17	15
Total equity	325	210
Total liabilities and equity	$5,479	$ 5,335

See accompanying notes

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Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)		(in millions)	
Revenue	$917	$811	$2,659	$2,405
Costs and expenses:				
Cost of revenue	(519)	(448)	(1,430)	(1,271)
Selling, general and administrative expenses (a)	(296)	(255)	(854)	(787)
Amortization expense	(51)	(63)	(152)	(188)
Total costs and expenses	(866)	(766)	(2,436)	(2,246)
Operating income	51	45	223	159
Loss on extinguishment of debt	(3)	—	(35)	(4)
Interest expense, net	(36)	(43)	(112)	(131)
Other (expense) income	(21)	(5)	(21)	25
(Loss) income before income taxes	(9)	(3)	55	49
Income tax benefit (expense)	152	(4)	132	(16)
Net income (loss)	143	(7)	187	33
Less: Income attributable to noncontrolling interest	(2)	(2)	(5)	(4)
Net income (loss) attributable to Warner Music Group Corp.	$141	$(9)	$182	$29
(a) Includes depreciation expense of:	$(13)	$(12)	$(38)	$(37)

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2017	2016	2017	2016
	(in millions)		(in millions)	
Net income (loss)	$ 143	$ (7)	$ 187	$ 33
Other comprehensive income (loss), net of tax:				
Foreign currency adjustment	26	5	13	(31)
Deferred gains (losses) on derivative financial instruments	1	1	—	(1)
Other comprehensive income (loss), net of tax	27	6	13	(32)
Total comprehensive income (loss)	170	(1)	200	1
Less: Income attributable to noncontrolling interest	(2)	(2)	(5)	(4)
Comprehensive income (loss) attributable to Warner Music Group Corp.	$ 168	$ (3)	$ 195	$ (3)

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended June 30, 2017 (in millions)		2016	
Cash flows from operating activities				
Net income	$	187	$	33
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization		190		225
Unrealized losses and remeasurement of foreign denominated loans		19		12
Deferred income taxes		(165)		(15)
Loss on extinguishment of debt		35		4
Net loss (gain) on divestitures and investments		17		(8)
Gain on sale of real estate		—		(24)
Non-cash interest expense		6		8
Equity-based compensation expense		26		9
Changes in operating assets and liabilities:				
Accounts receivable		(55)		(7)
Inventories		2		3
Royalty advances		(15)		(51)
Accounts payable and accrued liabilities		(55)		(47)
Royalty payables		152		103
Accrued interest		(14)		(13)
Deferred revenue		(25)		(35)
Other balance sheet changes		4		10
Net cash provided by operating activities		309		207

Cash flows from investing activities		
Acquisition of music publishing rights, net	(11)	(14)
Capital expenditures	(29)	(31)
Investments and acquisitions of businesses, net	(9)	(23)
Divestitures, net	43	27
Proceeds from the sale of real estate	—	42
Net cash (used in) provided by investing activities	(6)	1
Cash flows from financing activities		
Proceeds from issuance of Acquisition Corp. 4.125% Senior Secured Notes	380	—
Proceeds from issuance of Acquisition Corp. 4.875% Senior Secured Notes	250	—
Proceeds from issuance of Acquisition Corp. Senior Term Loan Facility	22	—
Repayment of Acquisition Corp. Senior Term Loan Facility	—	(10)
Repayment of Acquisition Corp. 6.00% Senior Secured Notes	(450)	—
Repayment of Acquisition Corp. 6.25% Senior Secured Notes	(173)	—
Repayment of Acquisition Corp. 5.625% Senior Secured Notes	(28)	—
Repayment of Holdings 13.75% Senior Notes	—	(50)
Repayment of Acquisition Corp. 6.75% Senior Notes	—	(24)
	(27)	(3)

Call premiums paid on early redemption of debt				
Deferred financing costs paid		(13)		—
Distribution to noncontrolling interest holder		(4)		(4)
Dividends paid		(54)		—
Repayment of capital lease obligations		—		(14)
Net cash used in financing activities		(97)		(105)
Effect of exchange rate changes on cash and equivalents		2		(4)
Net increase in cash and equivalents		208		99
Cash and equivalents at beginning of period		359		246
Cash and equivalents at end of period	$	567	$	345

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Equity (Unaudited)

	Common Stock Shares	Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. Equity	Noncontrolling Interest	Total Equity
	(in millions, except share amounts)							
Balance at September 30, 2016	1,055	$ —	$ 1,128	$ (715)	$ (218)	$ 195	$ 15	$ 210
Net income	—	—	—	182	—	182	5	187
Dividends	—	—	—	(84)	—	(84)	—	(84)
Other comprehensive income, net of tax	—	—	—	—	13	13	—	13
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(5)	(5)
Other	—	—	—	2	—	2	2	4
Balance at June 30, 2017	1,055	$ —	$ 1,128	$ (615)	$ (205)	$ 308	$ 17	$ 325

See accompanying notes

Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited)

1. Description of Business

Warner Music Group Corp. (the “Company”) was formed on November 21, 2003. The Company is the direct parent of WMG Holdings Corp. (“Holdings”), which is the direct parent of WMG Acquisition Corp. (“Acquisition Corp.”). Acquisition Corp. is one of the world’s major music-based content companies.

Acquisition of Warner Music Group by Access Industries

Pursuant to an Agreement and Plan of Merger, dated as of May 6, 2011 (the “Merger Agreement”), by and among the Company, AI Entertainment Holdings LLC (formerly Airplanes Music LLC), a Delaware limited liability company (“Parent”), and an affiliate of Access Industries, Inc. (“Access”), and Airplanes Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent (“Merger Sub”), on July 20, 2011 (the “Merger Closing Date”) Merger Sub merged with and into the Company with the Company surviving as a wholly owned subsidiary of Parent (the “Merger”). In connection with the Merger, the Company delisted its common stock from the New York Stock Exchange (“NYSE”). The Company continues to voluntarily 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”), as provided for in certain covenants contained in the agreements governing its outstanding indebtedness.

Acquisition of Parlophone Label Group

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

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

Recorded Music Operations

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

In the United States, Recorded Music operations are conducted principally through the Company’s major record labels—Atlantic Records and Warner Bros. Records. 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. The Company also conducts its Recorded Music operations through a collection of additional record labels, including Asylum, Big Beat, Canvasback, East West, Elektra, Erato, FFRR, Fueled by Ramen, Nonesuch, Parlophone, Reprise, Roadrunner, Sire, Warner Classics and Warner Music Nashville.

Outside the United States, Recorded Music activities are conducted in more than 50 countries 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 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 guide artists with respect to their careers.

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

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 offered by digital streaming services such as Apple Music, Deezer, Napster, Spotify and YouTube, including digital radio services such as iHeart Radio, Pandora and Sirius XM.

The Company has integrated the exploitation of digital content into all aspects of its business, including artist and repertoire (“A&R”), marketing, promotion and distribution. The Company’s business development executives work closely with A&R departments to ensure that while a record is being produced, digital assets are also created with all distribution channels in mind, including streaming services, social networking sites, online portals and music-centered destinations. The Company also works side by side with its online and mobile partners to test new concepts. The Company believes existing and new digital businesses will be a significant source of growth 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 has diversified 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 such as touring, merchandising and sponsorships. The Company has built artist services capabilities and platforms for exploiting this broader set of music-related rights and participating more widely in the monetization of the artist brands it helps create.

The Company believes that entering into expanded-rights deals and enhancing its artist services capabilities in areas such as concert promotion and management have permitted it to diversify revenue streams and capitalize on other revenue opportunities. This provides for improved long-term relationships with artists and allows the Company to more effectively connect artists and fans.

Music Publishing Operations

While recorded music is focused on exploiting a particular recording of a composition, music publishing is an intellectual property business focused on the exploitation of the composition itself. In return for promoting, placing, marketing and administering the creative output of a songwriter, or engaging in those activities for other rightsholders, the Company’s Music Publishing business garners a share of the revenues generated from use of the composition.

The Company’s Music Publishing operations are conducted principally through 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 70,000 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 Hallmark Entertainment and Disney Music Publishing. The Company has an extensive production music library collectively branded as Warner/Chappell Production Music.

2. Summary of Significant Accounting Policies

Interim Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month period ended June 30, 2017 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2017.

The consolidated balance sheet at September 30, 2016 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, 2016 (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") 810, Consolidation ("ASC 810"), requires the Company first evaluate its investments to determine if any investments qualify as a variable interest entity ("VIE"). A VIE is consolidated if the Company is deemed to be the primary beneficiary of the VIE, which is the party involved with the VIE that has both (i) the power to control the most significant activities of the VIE and (ii) either the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. If an entity is not deemed to be a VIE, the Company consolidates the entity if the Company has a controlling voting interest.

The Company maintains a 52-53 week fiscal year ending on the last Friday in each reporting period. As such, all references to June 30, 2017 and June 30, 2016 relate to the periods ended June 30, 2017 and June 24, 2016, respectively. For convenience purposes, the Company continues to date its financial statements as of June 30. The fiscal year ended September 30, 2016 ended on September 30, 2016.

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

Income Taxes

At the end of each interim period, the Company makes its best estimate of the effective tax rate expected to be applicable for the full fiscal year and uses that rate to provide for income taxes on a current year-to-date basis before discrete items. If a reliable estimate of the annual effective tax rate cannot be made, which could be caused by the significant variability in rates when marginal earnings are expected for the year, a discrete tax rate is calculated for the period.

New Accounting Pronouncements

During the first quarter of fiscal 2017, the Company adopted ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). ASU 2015-03 requires that debt issuance costs are presented as a direct deduction to the related debt in the liability section of the balance sheet, rather than presented as an asset. The Company has elected to adopt this standard retrospectively, and thus the Company reclassified prior period balances. The application of ASU 2015-03 to the Company's September 30, 2016 Consolidated Balance Sheets resulted in a decrease to other assets of $34 million and a decrease to long-term debt of $34 million.

In May 2014, the FASB issued guidance codified in ASC 606, Revenue from Contracts with Customers ("ASC 606"), which replaces the guidance in former ASC 605, Revenue Recognition and ASC 928, Entertainment – Music. The amendment was the result of a joint effort by the FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and international financial reporting standards ("IFRS"). The joint project clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP and IFRS. ASC 606 is effective for annual periods beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The update may be applied using one of two methods: retrospective application to each prior reporting period presented, or retrospective application with the cumulative effect of initially applying the update recognized at the date of initial application. The Company is currently evaluating the transition method that will be elected and the impact of the update on its financial statements and disclosures.

In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities ("ASU 2016-01"). This ASU will require that equity investments are measured at fair value with changes in fair value recognized in net income. The Company may elect to measure equity investments that do not have a readily determinable fair value at cost minus impairment, if any, plus or minus changes resulting from observable price. ASU 2016-01 will be effective for annual periods beginning after December 15, 2017, and interim periods within those years. Earlier adoption is permitted. The adoption of this standard is not expected to have a significant impact on the Company's financial statements, other than disclosure.

In February 2016, the FASB issued ASU 2016-02, Leases (“ASU 2016-02”). This ASU establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. ASU 2016-02 will be effective for annual periods beginning after December 15, 2018, and interim periods within those years. Earlier adoption is permitted. The Company is evaluating the impact of the adoption of this standard on its financial statements and disclosures.

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation ("ASU 2016-09"). This ASU provides amended guidance which simplifies the accounting for share-based payment transactions involving multiple aspects of the accounting for share-based transactions, including income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those years. Early adoption is permitted. The Company is evaluating the impact of the adoption of this standard on its financial statements and disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). This ASU provides specific guidance of how certain cash receipts and cash payments should be presented and classified in the statement of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted. The adoption of this standard is not expected to have a significant impact on the Company’s financial statements, other than presentation.

In October 2016, the FASB issued ASU 2016-16, Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory ("ASU 2016-16"). This ASU requires the recognition of current and deferred income taxes for intra-entity asset transfers when the transaction occurs. ASU 2016-16 is effective for annual periods beginning after December 15, 2017, and interim periods within those years. Early adoption is permitted using the modified retrospective approach with a cumulative-effect to opening retained earnings in the period of adoption. The Company does not plan to early adopt this standard and the impact upon the required adoption date is not known or reasonably estimable.

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 income (loss) primarily consist of foreign currency translation gains and losses and minimum pension liabilities. The following summary sets forth the changes in the components of accumulated other comprehensive loss, net of related taxes of $7 million:

	Foreign Currency Translation Gain (Loss) (a)	Minimum Pension Liability Adjustment	Deferred Losses On Derivative Financial Instruments	Accumulated Other Comprehensive Loss, net
	(in millions)			
Balance at September 30, 2016	$(201)	$ (17)	$ —	$ (218)
Other comprehensive income	13	—	—	13

Amounts reclassified from accumulated other comprehensive income	—	—	—	—
Balance at June 30, 2017	$(188)	$ (17)	$ —	$ (205)

(a) Includes historical foreign currency translation related to certain intra-entity transactions that are no longer considered of a long-term investment nature.

4. Goodwill and Intangible Assets

Goodwill

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

	Recorded Music	Music Publishing	Total
	(in millions)		
Balance at September 30, 2016	$1,163	$ 464	$1,627
Acquisitions	6	—	6
Divestitures	(5)	—	(5)
Other adjustments (a)	2	—	2
Balance at June 30, 2017	$1,166	$ 464	$1,630

(a) Other adjustments during the nine months ended June 30, 2017 primarily include foreign currency movements.

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

Intangible Assets

Intangible assets consist of the following:

	Weighted Average Useful Life	June 30, 2017	September 30, 2016
		(in millions)	
Intangible assets subject to amortization:			
Recorded music catalog	10 years	$869	$ 923
Music publishing copyrights	27 years	1,516	1,504
Artist and songwriter contracts	13 years	856	883
Trademarks	7 years	7	7
Other intangible assets	8 years	5	5
Total gross intangible asset subject to amortization		3,253	3,322
Accumulated amortization		(1,233)	(1,121)
Total net intangible assets subject to amortization		2,020	2,201
Intangible assets not subject to amortization:			
Trademarks and tradenames	Indefinite	117	116
Total net intangible assets		$2,137	$ 2,317

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5. Debt

Debt Capitalization

Long-term debt consists of the following:

	June 30, 2017	September 30, 2016
	(in millions)	
Revolving Credit Facility—Acquisition Corp. (a)	$—	$ —
Senior Term Loan Facility due 2023—Acquisition Corp. (b)	989	963
6.00% Senior Secured Notes due 2021—Acquisition Corp. (c)	—	444
6.25% Senior Secured Notes due 2021—Acquisition Corp. (d)	—	174
5.625% Senior Secured Notes due 2022—Acquisition Corp. (e)	246	272
5.00% Senior Secured Notes due 2023—Acquisition Corp. (f)	297	296
4.125% Senior Secured Notes due 2024— Acquisition Corp. (g)	389	—
4.875% Senior Secured Notes due 2024— Acquisition Corp. (h)	246	—
6.75% Senior Notes due 2022—Acquisition Corp. (i)	630	629
Total debt (j)	$2,797	$ 2,778

(a) Reflects $150 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $12 million and $5 million at June 30, 2017 and September 30, 2016, respectively. There were no loans outstanding under the Revolving Credit Facility at June 30, 2017 or September 30, 2016.

(b) Principal amount of $1.006 billion and $978 million less unamortized discount of $6 million and $3 million and unamortized deferred financing costs of $11 million and $12 million at June 30, 2017 and September 30, 2016, respectively.

(c) Principal amount of $450 million less unamortized deferred financing costs of $6 million at September 30, 2016.

(d) Face amount of €158 million. Above amounts represent the dollar equivalent of such notes at September 30, 2016. Principal amount of $177 million less unamortized deferred financing costs of $3 million at September 30, 2016.

(e) Principal amount of $248 million and $275 million less unamortized deferred financing costs of $2 million and $3 million at June 30, 2017 and September 30, 2016, respectively.

(f) Principal amount of $300 million at both June 30, 2017 and September 30, 2016 less unamortized deferred financing costs of $3 million and $4 million at June 30, 2017 and September 30, 2016, respectively.

(g) Face amount of €345 million. Above amounts represent the dollar equivalent of such notes at June 30, 2017. Principal amount of $395 million less unamortized deferred financing costs of $6 million at June 30, 2017.

(h) Principal amount of $250 million less unamortized deferred financing costs of $4 million at June 30, 2017.

(i) Principal amount of $635 million at both June 30, 2017 and September 30, 2016 less unamortized deferred financing costs of $5 million and $6 million at June 30, 2017 and September 30, 2016, respectively.

(j) Principal amount of debt of $2.834 billion and $2.815 billion less unamortized discount of $6 million and $3 million and unamortized deferred financing costs of $31 million and $34 million at June 30, 2017 and September 30, 2016, respectively.

October 2016 Refinancing Transactions

On October 18, 2016, Acquisition Corp. issued €345 million in aggregate principal amount of its 4.125% Senior Secured Notes due 2024 and $250 million in aggregate principal amount of its 4.875% Senior Secured Notes due 2024. Acquisition Corp. used the net proceeds to pay the consideration in the tender offers and satisfy and discharge its 2021 Senior Secured Notes as described below.

On October 18, 2016, Acquisition Corp. accepted for purchase in connection with tender offers for its 6.000% Senior Secured Notes due 2021 (the “Existing Dollar Notes”) and 6.250% Senior Secured Notes due 2021 (the “Existing Euro Notes” and, together with the Existing Dollar Notes, the “2021 Senior Secured Notes”) the 2021 Senior Secured Notes that had been validly tendered and not validly withdrawn on October 17, 2016 (the “Expiration Time”). Acquisition Corp. then issued a notice of redemption on October 18, 2016 with respect to the remaining 2021 Senior Secured Notes not accepted for payment pursuant to the tender offers. Following payment of the 2021 Senior Secured Notes tendered at or prior to the Expiration Time, Acquisition Corp. deposited with the Trustee for the 2021 Senior Secured Notes not accepted for purchase in the tender offers funds sufficient to satisfy all obligations remaining to the date of redemption, which redemption date was January 15, 2017, under the applicable indenture governing the 2021 Senior Secured Notes. The Company recorded a loss on extinguishment of debt of approximately $31 million, which represented the premium paid on early redemption and unamortized deferred financing costs. These transactions are collectively referred to as the “October 2016 Refinancing Transactions.”

November 2016 Senior Term Loan Credit Agreement Amendment

On November 21, 2016, Acquisition Corp. received lender consent to an amendment (the "November 2016 Senior Term Loan Credit Agreement Amendment") to the Senior Term Loan Credit Agreement governing Acquisition Corp.'s Senior Term Loan Facility, which extended the maturity date of the Senior Term Loan Credit Agreement to November 1, 2023, subject, in certain circumstances, to a springing maturity inside the maturity date of certain of Acquisition Corp.'s other outstanding indebtedness and increased the principal amount outstanding by $27.5 million to $1.006 billion and increased the original issue discount by $5 million to $8 million. Acquisition Corp. used the proceeds from the November 2016 Senior Term Loan Credit Agreement Amendment to redeem $27.5 million of the 5.625% Senior Secured Notes due 2022 and to pay fees, costs and expenses related to the transactions.

May 2017 Senior Term Loan Credit Agreement Amendment

On May 22, 2017, Acquisition Corp. entered into an amendment (the "May 2017 Senior Term Loan Credit Agreement Amendment") to the Senior Term Loan Credit Agreement, dated November 1, 2012, among Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, governing Acquisition Corp.'s senior secured term loan facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto, to, among other things, reduce the pricing terms of its outstanding term loans. The Company recorded a loss on extinguishment of debt of approximately $3 million, which represented the discount and unamortized deferred financing costs related to the debt of the lenders that was fully repaid.

Prior to the May 2017 Senior Term Loan Credit Agreement Amendment, term loan borrowings under the Senior Term Loan Credit Agreement bore interest at a floating rate measured by reference to, at Acquisition Corp.'s option, either (i) an adjusted London inter-bank offered rate, or "LIBOR," not less than 1.00% per annum plus a borrowing margin of 2.75% per annum or (ii) an alternate base rate plus a borrowing margin of 1.75% per annum. Pursuant to the May 2017 Senior Term Loan Credit Agreement Amendment, term loan borrowings under the Senior Term Loan Credit Agreement will bear interest at a floating rate measured by reference to, at Acquisition Corp.'s option, either (i) an adjusted LIBOR, not less than 0.00% per annum plus a borrowing margin of 2.50% per annum or (ii) an alternative base rate plus a borrowing margin of 1.50% per annum.

5.625% Existing Secured Notes Redemption

On November 21, 2016, Acquisition Corp. redeemed $27.5 million, or 10%, of its outstanding 5.625% Senior Secured Notes due 2022. The Company recorded a loss on extinguishment of debt of approximately $1 million, which represents the premium paid on early redemption and unamortized deferred financing costs.

Interest Rates

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

The loans under the Senior Term Loan Facility bear interest at Acquisition Corp.'s election at a rate equal to (i) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period ("Term Loan LIBOR"), plus 2.50% 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) three-month Term Loan LIBOR, plus 1.00% per annum, plus, in each case, 1.50% per annum. 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.

Maturity of Senior Term Loan Facility

The loans outstanding under the Senior Term Loan Facility mature on November 1, 2023, subject, in certain circumstances, to a springing maturity inside the maturity of certain of Acquisition Corp.'s other indebtedness.

Maturity of Revolving Credit Facility

The maturity date of the Revolving Credit Facility is April 1, 2021.

Maturities of Senior Notes and Senior Secured Notes

As of June 30, 2017, there are no scheduled maturities of notes until 2022, when $883 million is scheduled to mature. Thereafter, $945 million is scheduled to mature.

Interest Expense, net

Total interest expense, net, was $36 million and $43 million for the three months ended June 30, 2017 and June 30, 2016, respectively. Total interest expense, net, was $112 million and $131 million for the nine months ended June 30, 2017 and June 30, 2016, respectively. The weighted-average interest rate of the Company's total debt was 4.9% at June 30, 2017, 5.3% at September 30, 2016, and 5.4% at June 30, 2016.

6. 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 U.S. 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. On March 19, 2014, plaintiffs filed a motion for class certification. Plaintiffs filed an operative consolidated amended complaint on September 25, 2015. The Company filed its answer to the fourth amended complaint on October 9, 2015, and filed an amended answer on November 3, 2015. A mediation took place on February 22, 2016, but the parties were unable to reach a resolution. On July 12, 2017, the District Court denied plaintiffs' motion for class certification. On August 1, 2017, plaintiffs filed a petition with the Second Circuit seeking permission to appeal the district court's order denying class certification. 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.

Sirius XM

On September 11, 2013, the Company joined with Capitol Records, LLC, Sony Music Entertainment, UMG Recordings, Inc. and ABKCO Music & Records, Inc. in a lawsuit brought in California Superior Court against Sirius XM Radio Inc., alleging copyright infringement for Sirius XM's use of pre-1972 sound recordings under California law. A nation-wide settlement was reached on June 17, 2015 pursuant to which Sirius XM paid the plaintiffs, in the aggregate, $210 million on July 29, 2015 and the plaintiffs dismissed their lawsuit with prejudice. The settlement resolves all past claims as to Sirius XM's use of pre-1972 recordings owned or controlled by the plaintiffs and enables Sirius XM, without any additional payment, to reproduce, perform and broadcast such recordings in the United States through December 31, 2017. As part of the settlement, Sirius XM has the right, to be exercised before December 31, 2017, to enter into a license with each plaintiff to reproduce, perform and broadcast its pre-1972 recordings from January 1, 2018 through December 31, 2022. The royalty rate for each such license will be determined by negotiation or, if the parties are unable to agree, binding arbitration on a willing buyer/willing seller standard. The allocation of the settlement proceeds among the plaintiffs was determined and the settlement proceeds were distributed accordingly. This resulted in a cash distribution to the Company of $33 million of which $28 million was recognized in revenue during the 2016 fiscal year and $3 million was recognized in revenue during the 2017 fiscal year. The balance will be recognized in revenue ratably over the next two quarters. The Company is sharing its allocation of the settlement proceeds with its artists on the same basis as statutory revenue from Sirius XM is shared, i.e., the artist share of our allocation is being paid to artists by SoundExchange.

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 the currently pending proceedings, the amount of accrual is not 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.

7. Income Taxes

For the three and nine months ended June 30, 2017, the Company recorded an income tax benefit of $152 million and $132 million, respectively. The tax benefit for the three months ended June 30, 2017 is lower than the expected tax at the statutory tax rate of 35% primarily due to a U.S. tax benefit of $128 million for the reversal of a significant portion of our U.S. deferred tax valuation allowance and a U.S. tax benefit of $51 million related to foreign currency losses on intra-entity loans, partially offset by income withholding taxes, foreign losses with no tax benefit and an increase in uncertain tax positions. The tax benefit for the nine months ended June 30, 2017 is lower than the expected tax at the statutory tax rate of 35% primarily due to a U.S. tax benefit of $128 million for the reversal of a significant portion of our U.S. deferred tax valuation allowance and a U.S. tax benefit of $60 million related to foreign currency losses on intra-entity loans, partially offset by income withholding taxes, foreign losses with no tax benefit and an increase in uncertain tax positions.

For the three and nine months ended June 30, 2016, the Company recorded income tax expense of $4 million and $16 million, respectively. The tax expense for the three months ended June 30, 2016 is higher than the expected tax expense at the statutory tax rate of 35% primarily due to income withholding taxes and foreign losses with no tax benefit and an increase in uncertain tax positions. The effective tax rate for the nine months ended June 30, 2016 is lower than the expected tax expense at the statutory tax rate of 35% primarily due to a $10 million benefit for changes in statutory tax rates in foreign jurisdictions and reduction in valuation allowance, partially offset by income withholding taxes, foreign losses with no tax benefit and an increase in uncertain tax positions.

Prior to the three months ended June 30, 2017, the Company maintained a valuation allowance on the U.S. tax attributes due to significant negative evidence, including cumulative U.S. losses in the most recent three-year period and our assessment that the realization of the net deferred tax assets did not meet the "more likely than not" criteria under ASC 740, Income Taxes.

During the three months ended June 30, 2017 we emerged from cumulative U.S. losses in the most recent three-year period. The emergence from cumulative three-year losses, projections of sufficient future taxable income in the U.S., and the reversal of future taxable temporary differences represents significant positive evidence, which outweighed our historical negative evidence. Therefore, the Company concluded that it is more likely than not that the Company's deferred tax assets, except for a portion of the Company's deferred tax assets relating to foreign tax credit ("FTC") carryforwards and U.S. State net operating loss ("NOL") carryforwards, will be realized. As a result, in the three and nine months ended June 30, 2017 the Company has released $128 million of its valuation allowance recorded on its deferred tax assets as of the year-ended September 30, 2016. The Company has retained a portion of its valuation allowance of $105 million against its U.S. tax attributes of which $101 million relates to our FTC carryforwards and $4 million relates to our U.S. State NOL carryforwards due to its expectation of realizing the benefits of these tax attributes during the limited carryforward period does not meet the "more likely than not" threshold.

The Company will continue to evaluate its ability to utilize its FTC carryforwards to determine if there are any significant events or any prudent and feasible tax planning strategies that would affect its ability to realize a deferred tax asset.

The Company's gross unrecognized tax benefits decreased during the nine months ended June 30, 2017 by $13 million due primarily to the finalization of an agreement with the United Kingdom ("U.K.") tax authorities. The Company has determined that it is reasonably possible that the gross unrecognized tax benefits as of June 30, 2017 could decrease by up to approximately $3 million related to various ongoing audits and settlement discussions in various foreign jurisdictions during the next twelve months.

8. 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, Derivatives and Hedging. 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 the statement of operations.

The Company may at times choose to hedge foreign currency risk associated with financing transactions such as third-party 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 11. 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 June 30, 2017, the Company had outstanding hedge contracts for the sale of $137 million and the purchase of $78 million of foreign currencies at fixed rates that will be settled by September 2017. As of June 30, 2017, the Company had less than $1 million of unrealized deferred income in comprehensive income related to foreign exchange hedging. As of September 30, 2016, the Company had no outstanding hedge contracts and 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 June 30, 2017 and September 30, 2016:

	June 30, 2017 (a)	September 30, 2016
	(in millions)	
Other current assets	$ —	$ —
Other current liabilities	2	—

(a) Includes $2 million and $4 million of foreign exchange derivative contracts in asset and liability positions, respectively.

9. 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 reportable segments of the Company. Information as to each of these operations is set forth below. The Company evaluates performance based on several factors, of which the primary financial measure is operating income (loss) before non-cash depreciation of tangible assets and non-cash amortization of intangible assets ("OIBDA"). The Company has supplemented its analysis of OIBDA results by segment with an analysis of operating income (loss) by segment.

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

Three Months Ended	Recorded Music	Music Publishing	Corporate expenses and eliminations	Total
	(in millions)			
June 30, 2017				
Revenues	$770	$ 150	$ (3)	$917
Operating income (loss)	77	6	(32)	51
Amortization of intangible assets	35	16	—	51
Depreciation of property, plant and equipment	8	1	4	13

OIBDA	120		23		(28	)	115	
June 30, 2016								
Revenues	$680	$	134	$	(3	)	$811	
Operating income (loss)	64		6		(25	)	45	
Amortization of intangible assets	47		16		—		63	
Depreciation of property, plant and equipment	8		1		3		12	
OIBDA	119		23		(22	)	120	

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Nine Months Ended	Recorded Music (in millions)	Music Publishing	Corporate expenses and eliminations	Total
June 30, 2017				
Revenues	$2,253	$ 419	$ (13)	$2,659
Operating income (loss)	269	45	(91)	223
Amortization of intangible assets	104	48	—	152
Depreciation of property, plant and equipment	24	4	10	38
OIBDA	397	97	(81)	413
June 30, 2016				
Revenues	$2,038	$ 377	$ (10)	$2,405
Operating income (loss)	200	30	(71)	159
Amortization of intangible assets	140	48	—	188
Depreciation of property, plant and equipment	24	4	9	37
OIBDA	364	82	(62)	384

10. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $56 million and $48 million during the three months ended June 30, 2017 and June 30, 2016, respectively. The Company made interest payments of approximately $120 million and $136 million during the nine months ended June 30, 2017 and June 30, 2016, respectively. The Company paid approximately $8 million of income and withholding taxes with no offsetting refunds during the three months ended June 30, 2017 and paid approximately $15 million of income and withholding taxes with no offsetting refunds during the three months ended June 30, 2016. The Company paid approximately $30 million of income and withholding taxes, partially offset by $3 million of refunds, during the nine months ended June 30, 2017 and paid approximately $28 million of income and withholding taxes with no offsetting refunds during the nine months ended June 30, 2016.

Special Cash Dividends

On December 2, 2016, the Company's Board of Directors approved a special cash dividend of $54 million which was paid on January 3, 2017 to stockholders of record as of December 30, 2016.

On June 5, 2017, the Company's Board of Directors approved a special cash dividend of $30 million which was paid on July 31, 2017 to stockholders of record as of June 30, 2017. The dividend is accrued at June 30, 2017 in other current liabilities.

11. Fair Value Measurements

ASC 820, Fair Value Measurement, 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 June 30, 2017 and September 30, 2016.

	Fair Value Measurements as of June 30, 2017			
	(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)	—	—	—	—
Other Non-Current Liabilities:				
Contractual Obligations (b)	—	—	(5)	(5)
Total	$ —	$ (2)	$ (5)	$ (7)

	Fair Value Measurements as of September 30, 2016			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Liabilities:				
Contractual Obligations (b)	—	—	—	—
Other Non-Current Liabilities:				
Contractual Obligations (b)	—	—	(4)	(4)
Total	$ —	$ —	$ (4)	$ (4)

(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 assets and liabilities classified as Level 3:

	Total
	(in millions)

Balance at September 30, 2016		(4)
Additions		(1)
Reductions		—
Payments		—
Balance at June 30, 2017	$	(5)

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

Fair Value of Debt

Based on the level of interest rates prevailing at June 30, 2017, the fair value of the Company’s debt was $2.917 billion. Based on the level of interest rates prevailing at September 30, 2016, the fair value of the Company’s debt was $2.896 billion. The fair value of the Company’s debt instruments are determined using quoted market prices from less active markets or by using quoted market prices for instruments with identical terms and maturities; both approaches are considered a Level 2 measurement.

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Financial Statements

The Company is the direct parent of Holdings, which is the direct parent of Acquisition Corp. Acquisition Corp. has issued and outstanding the 5.625% Senior Secured Notes due 2022, the 5.00% Senior Secured Notes due 2023, the 4.125% Senior Secured Notes due 2024, the 4.875% Senior Secured Notes due 2024 and the 6.75% Senior Notes due 2022 (together, the “Acquisition Corp. Notes”).

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

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

Consolidating Balance Sheet (Unaudited)

June 30, 2017

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Assets:									
Current assets:									
Cash and equivalents	$—	$ 290	$ 277	$ —	$ 567	$ —	$ —	$ —	$ 567
Accounts receivable, net	—	189	191	—	380	—	—	—	380
Inventories	—	13	25	—	38	—	—	—	38
Royalty advances expected to be recouped within one year	—	83	53	—	136	—	—	—	136
Prepaid and other current assets	—	19	38	—	57	—	—	—	57
Total current assets	—	594	584	—	1,178	—	—	—	1,178
Due (to) from parent companies	404	31	(435)	—	—	—	—	—	—
Investments in and advances to consolidated subsidiaries	2,720	1,306	—	(4,026)	—	392	392	(784)	—
Royalty advances expected to be recouped after one year	—	125	79	—	204	—	—	—	204
Property, plant and equipment, net	—	130	73	—	203	—	—	—	203
Goodwill	—	1,372	258	—	1,630	—	—	—	1,630
Intangible assets subject to amortization, net	—	1,062	958	—	2,020	—	—	—	2,020
Intangible assets not subject to amortization	—	71	46	—	117	—	—	—	117
Deferred tax assets, net	—	57	2	—	59	—	—	—	59
Other assets	6	45	17	—	68	—	—	—	68
Total assets	$3,130	$ 4,793	$ 1,582	$ (4,026)	$ 5,479	$ 392	$ 392	$ (784)	$ 5,479
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$—	$ 89	$ 77	$ —	$ 166	$ —	$ —	$ —	$ 166
Accrued royalties	—	675	573	—	1,248	—	—	—	1,248
Accrued liabilities	—	114	172	—	286	—	—	—	286
Accrued interest	24	—	—	—	24	—	—	—	24
Deferred revenue	—	106	55	—	161	—	—	—	161
Other current liabilities	—	34	19	—	53	—	—	—	53

Total current liabilities	24	1,018	896	—	1,938	—	—	—	1,938
Long-term debt	2,797	—	—	—	2,797	—	—	—	2,797
Deferred tax liabilities, net	—	—	159	—	159	—	—	—	159
Other noncurrent liabilities	1	138	121	—	260	—	—	—	260
Total liabilities	2,822	1,156	1,176	—	5,154	—	—	—	5,154
Total Warner Music Group Corp. equity	308	3,633	393	(4,026)	308	392	392	(784)	308
Noncontrolling interest	—	4	13	—	17	—	—	—	17
Total equity	308	3,637	406	(4,026)	325	392	392	(784)	325
Total liabilities and equity	$3,130	$ 4,793	$ 1,582	$ (4,026)	$ 5,479	$ 392	$ 392	$ (784)	$ 5,479

Consolidating Balance Sheet

September 30, 2016

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Assets:									
Current assets:									
Cash and equivalents	$—	$ 180	$ 179	$ —	$ 359	$ —	$ —	$ —	$ 359
Accounts receivable, net	—	177	152	—	329	—	—	—	329
Inventories	—	16	25	—	41	—	—	—	41
Royalty advances expected to be recouped within one year	—	79	49	—	128	—	—	—	128
Prepaid and other current assets	1	13	37	—	51	—	—	—	51
Total current assets	1	465	442	—	908	—	—	—	908
Due (to) from parent companies	750	(312)	(438)	—	—	—	—	—	—
Investments in and advances to (from) consolidated subsidiaries	2,260	1,458	—	(3,718)	—	195	195	(390)	—
Royalty advances expected to be recouped after one year	—	120	76	—	196	—	—	—	196
Property, plant and equipment, net	—	138	65	—	203	—	—	—	203
Goodwill	—	1,372	255	—	1,627	—	—	—	1,627
Intangible assets subject to amortization, net	—	1,165	1,036	—	2,201	—	—	—	2,201
Intangible assets not subject to amortization	—	71	45	—	116	—	—	—	116
Deferred tax assets, net	—	—	2	—	2	—	—	—	2
Other assets	3	62	17	—	82	—	—	—	82
Total assets	$3,014	$ 4,539	$ 1,500	$ (3,718)	$ 5,335	$ 195	$ 195	$ (390)	$ 5,335
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$—	$ 124	$ 80	$ —	$ 204	$ —	$ —	$ —	$ 204
Accrued royalties	—	606	498	—	1,104	—	—	—	1,104
Accrued liabilities	—	112	185	—	297	—	—	—	297
Accrued interest	38	—	—	—	38	—	—	—	38
Deferred revenue	—	143	35	—	178	—	—	—	178
	—	—	—	—	—	—	—	—	—

Current portion of long-term debt									
Other current liabilities	—	3	18	—	21	—	—	—	21
Total current liabilities	38	988	816	—	1,842	—	—	—	1,842
Long-term debt	2,778	—	—	—	2,778	—	—	—	2,778
Deferred tax liabilities, net	—	109	160	—	269	—	—	—	269
Other noncurrent liabilities	3	126	107	—	236	—	—	—	236
Total liabilities	2,819	1,223	1,083	—	5,125	—	—	—	5,125
Total Warner Music Group Corp. equity (deficit)	195	3,314	404	(3,718)	195	195	195	(390)	195
Noncontrolling interest	—	2	13	—	15	—	—	—	15
Total equity (deficit)	195	3,316	417	(3,718)	210	195	195	(390)	210
Total liabilities and equity (deficit)	$3,014	$ 4,539	$ 1,500	$ (3,718)	$ 5,335	$ 195	$ 195	$ (390)	$ 5,335

Consolidating Statement of Operations (Unaudited)

For The Three Months Ended June 30, 2017

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Revenues	$—	$ 509	$ 510	$ (102)	$ 917	$ —	$ —	$ —	$ 917
Costs and expenses:									
Cost of revenue	—	(249)	(342)	72	(519)	—	—	—	(519)
Selling, general and administrative expenses	—	(209)	(115)	28	(296)	—	—	—	(296)
Amortization of intangible assets	—	(25)	(26)	—	(51)	—	—	—	(51)
Total costs and expenses	—	(483)	(483)	100	(866)	—	—	—	(866)
Operating income	—	26	27	(2)	51	—	—	—	51
Loss on extinguishment of debt	(3)	—	—	—	(3)	—	—	—	(3)
Interest expense, net	(21)	—	(15)	—	(36)	—	—	—	(36)
Equity gains (losses) from equity method investments	20	3	—	(22)	1	141	141	(282)	1
Other expense, net	(7)	(8)	(7)	—	(22)	—	—	—	(22)
(Loss) income before income taxes	(11)	21	5	(24)	(9)	141	141	(282)	(9)
Income tax benefit (expense)	152	154	(5)	(149)	152	—	—	—	152
Net income	141	175	—	(173)	143	141	141	(282)	143
Less: income attributable to noncontrolling interest	—	(1)	(1)	—	(2)	—	—	—	(2)
Net income (loss) attributable to Warner Music Group Corp.	$ 141	$ 174	$ (1)	$ (173)	$ 141	$ 141	$ 141	$ (282)	$ 141

Consolidating Statement of Operations (Unaudited)

For The Three Months Ended June 30, 2016

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Revenues	$—	$ 501	$ 395	$ (85)	$ 811	$ —	$ —	$ —	$ 811
Costs and expenses:									
Cost of revenue	—	(269)	(237)	58	(448)	—	—	—	(448)
Selling, general and administrative expenses	—	(169)	(113)	27	(255)	—	—	—	(255)
Amortization of intangible assets	—	(31)	(32)	—	(63)	—	—	—	(63)
Total costs and expenses	—	(469)	(382)	85	(766)	—	—	—	(766)
Operating income	—	32	13	—	45	—	—	—	45
Interest expense, net	(19)	—	(20)	—	(39)	(4)	—	—	(43)
Equity gains (losses) from equity method investments	27	7	—	(34)	—	(5)	(9)	14	—
Other (expense) income, net	(9)	2	2	—	(5)	—	—	—	(5)
(Loss) income before income taxes	(1)	41	(5)	(34)	1	(9)	(9)	14	(3)
Income tax (expense) benefit	(4)	(7)	(1)	8	(4)	—	—	—	(4)
Net (loss) income	(5)	34	(6)	(26)	(3)	(9)	(9)	14	(7)
Less: income attributable to noncontrolling interest	—	(1)	(1)	—	(2)	—	—	—	(2)
Net (loss) income attributable to Warner Music Group Corp.	$(5)	$ 33	$ (7)	$ (26)	$ (5)	$ (9)	$ (9)	$ 14	$ (9)

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Consolidating Statement of Operations (Unaudited)

For The Nine Months Ended June 30, 2017

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Revenues	$—	$ 1,469	$ 1,470	$ (280)	$ 2,659	$ —	$ —	$ —	$ 2,659
Costs and expenses:									
Cost of revenue	—	(673)	(951)	194	(1,430)	—	—	—	(1,430)
Selling, general and administrative expenses	(1)	(584)	(353)	84	(854)	—	—	—	(854)
Amortization of intangible assets	—	(76)	(76)	—	(152)	—	—	—	(152)
Total costs and expenses	(1)	(1,333)	(1,380)	278	(2,436)	—	—	—	(2,436)
Operating (loss) income	(1)	136	90	(2)	223	—	—	—	223
Loss on extinguishment of debt	(35)	—	—	—	(35)	—	—	—	(35)
Interest (expense) income, net	(65)	2	(49)	—	(112)	—	—	—	(112)
Equity gains (losses) from equity method investments	152	54	—	(205)	1	182	182	(364)	1
Other expense, net	(1)	(5)	(16)	—	(22)	—	—	—	(22)
Income before income taxes	50	187	25	(207)	55	182	182	(364)	55
Income tax benefit (expense)	132	132	(21)	(111)	132	—	—	—	132
Net income	182	319	4	(318)	187	182	182	(364)	187
Less: income attributable to noncontrolling interest	—	(1)	(4)	—	(5)	—	—	—	(5)
Net income attributable to Warner Music Group Corp.	$ 182	$ 318	$ -	$ (318)	$ 182	$ 182	$ 182	$ (364)	$ 182

Consolidating Statement of Operations (Unaudited)

For The Nine Months Ended June 30, 2016

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Revenues	$—	$ 1,401	$ 1,216	$ (212)	$ 2,405	$ —	$ —	$ —	$ 2,405
Costs and expenses:									
Cost of revenue	—	(711)	(693)	133	(1,271)	—	—	—	(1,271)
Selling, general and administrative expenses	—	(508)	(358)	79	(787)	—	—	—	(787)
Amortization of intangible assets	—	(92)	(96)	—	(188)	—	—	—	(188)
Total costs and expenses	—	(1,311)	(1,147)	212	(2,246)	—	—	—	(2,246)
Operating income	—	90	69	—	159	—	—	—	159
Interest (expense) income, net	(60)	2	(59)	—	(117)	(14)	—	—	(131)
Equity gains (losses) from equity method investments	132	67	—	(199)	—	48	29	(77)	—
Other (expense) income, net	(8)	(18)	52	—	26	(5)	—	—	21
Income (loss) before income taxes	64	141	62	(199)	68	29	29	(77)	49
Income tax (expense) benefit	(16)	(19)	(9)	28	(16)	—	—	—	(16)
Net income (loss)	48	122	53	(171)	52	29	29	(77)	33
Less: income attributable to noncontrolling interest	—	(1)	(3)	—	(4)	—	—	—	(4)
Net income (loss) attributable to Warner Music Group Corp.	$48	$ 121	$ 50	$ (171)	$ 48	$ 29	$ 29	$ (77)	$ 29

Consolidating Statement of Comprehensive Income (Unaudited)

For The Three Months Ended June 30, 2017

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net income	$ 141	$ 175	$ -	$ (173)	$ 143	$ 141	$ 141	$ (282)	$ 143
Other comprehensive income, net of tax:									
Foreign currency adjustment	26	—	—	—	26	28	28	(56)	26
Deferred gains on derivative financial instruments	1	—	—	—	1	1	1	(2)	1
Other comprehensive income, net of tax:	27	—	—	—	27	29	29	(58)	27
Total comprehensive income	168	175	—	(173)	170	170	170	(340)	170
Less: income attributable to noncontrolling interest	—	(1)	(1)	—	(2)	—	—	—	(2)
Comprehensive income (loss) attributable to Warner Music Group Corp.	$ 168	$ 174	$ (1)	$ (173)	$ 168	$ 170	$ 170	$ (340)	$ 168

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Consolidating Statement of Comprehensive Income (Unaudited)

For The Three Months Ended June 30, 2016

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net (loss) income	$(5)	$ 34	$ (6)	$ (26)	$ (3)	$ (9)	$ (9)	$ 14	$ (7)
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	4	—	4	(4)	4	5	5	(9)	5
Deferred gains on derivative financial instruments	1	1	—	(1)	1	1	1	(2)	1
Other comprehensive income (loss), net of tax:	5	1	4	(5)	5	6	6	(11)	6
Total comprehensive income (loss)	—	35	(2)	(31)	2	(3)	(3)	3	(1)
Less: income attributable to noncontrolling interest	—	(1)	(1)	—	(2)	—	—	—	(2)
Comprehensive income (loss) attributable to Warner Music Group Corp.	$—	$ 34	$ (3)	$ (31)	$ —	$ (3)	$ (3)	$ 3	$ (3)

Consolidating Statement of Comprehensive Income (Unaudited)

For The Nine Months Ended June 30, 2017

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net income	$ 182	$ 319	$ 4	$ (318)	$ 187	$ 182	$ 182	$ (364)	$ 187
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	13	—	(13)	13	13	15	15	(30)	13
Deferred losses on derivative financial instruments	—	(1)	—	1	—	—	—	—	—
Other comprehensive income (loss), net of tax:	13	(1)	(13)	14	13	15	15	(30)	13
Total comprehensive income (loss)	195	318	(9)	(304)	200	197	197	(394)	200
Less: income attributable to noncontrolling interest	—	(1)	(4)	—	(5)	—	—	—	(5)
Comprehensive income (loss) attributable to Warner Music Group Corp.	$ 195	$ 317	$ (13)	$ (304)	$ 195	$ 197	$ 197	$ (394)	$ 195

Consolidating Statement of Comprehensive Income (Unaudited)

For The Nine Months Ended June 30, 2016

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net income	$48	$ 122	$ 53	$ (171)	$ 52	$ 29	$ 29	$ (77)	$ 33
Other comprehensive (loss) income, net of tax:									
Foreign currency adjustment	(32)	—	(32)	32	(32)	(31)	(31)	63	(31)
Deferred losses on derivative financial instruments	(1)	(1)	—	1	(1)	(1)	(1)	2	(1)
Other comprehensive (loss) income, net of tax:	(33)	(1)	(32)	33	(33)	(32)	(32)	65	(32)
Total comprehensive income (loss)	15	121	21	(138)	19	(3)	(3)	(12)	1
Less: income attributable to noncontrolling interest	—	(1)	(3)	—	(4)	—	—	—	(4)
Comprehensive income (loss) attributable to Warner Music Group Corp.	$15	$ 120	$ 18	$ (138)	$ 15	$ (3)	$ (3)	$ (12)	$ (3)

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Consolidating Statement of Cash Flows (Unaudited)

For The Nine Months Ended June 30, 2017

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Cash flows from operating activities									
Net income	$ 182	$ 319	$ 4	$ (318)	$ 187	$ 182	$ 182	$ (364)	$ 187
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation and amortization	—	104	86	—	190	—	—	—	190
Unrealized losses and remeasurement of foreign denominated loans	15	2	2	—	19	—	—	—	19
Deferred income taxes	2	—	(167)	—	(165)	—	—	—	(165)
Loss on extinguishment of debt	35	—	—	—	35	—	—	—	35
Net loss on divestitures and investments	—	25	(8)	—	17	—	—	—	17
Non-cash interest expense	6	—	—	—	6	—	—	—	6
Equity-based compensation expense	—	25	1	—	26	—	—	—	26
Equity (gains) losses, including distributions	(152)	(53)	—	205	—	(182)	(182)	364	—
Changes in operating assets and liabilities:									
Accounts receivable	—	(12)	(43)	—	(55)	—	—	—	(55)
Inventories	—	1	1	—	2	—	—	—	2
Royalty advances	—	(9)	(6)	—	(15)	—	—	—	(15)
Accounts payable and accrued liabilities	—	(137)	(31)	113	(55)	—	—	—	(55)
Royalty payables	—	70	82	—	152	—	—	—	152
Accrued interest	(14)	—	—	—	(14)	—	—	—	(14)
Deferred revenue	—	(42)	17	—	(25)	—	—	—	(25)
Other balance sheet changes	6	(169)	167	—	4	—	—	—	4

Net cash provided by operating activities	80	124	105	—	309	—	—	—	309
Cash flows from investing activities									
Acquisition of music publishing rights, net	—	(6)	(5)	—	(11)	—	—	—	(11)
Capital expenditures	—	(19)	(10)	—	(29)	—	—	—	(29)
Investments and acquisitions of businesses, net	—	(6)	(3)	—	(9)	—	—	—	(9)
Divestitures, net	—	30	13	—	43	—	—	—	43
Advances from issuer	(41)	—	—	41	—	—	—	—	—
Net cash used in investing activities	(41)	(1)	(5)	41	(6)	—	—	—	(6)
Cash flows from financing activities									
Proceeds from issuance of Acquisition Corp. 4.125% Senior Secured Notes	380	—	—	—	380	—	—	—	380
Proceeds from issuance of Acquisition Corp. 4.875% Senior Secured Notes	250	—	—	—	250	—	—	—	250
Proceeds from issuance of Acquisition Corp. Senior Term Loan Facility	22	—	—	—	22	—	—	—	22
Repayment of Acquisition Corp. 6.00% Senior Secured Notes	(450)	—	—	—	(450)	—	—	—	(450)
Repayment of Acquisition Corp. 6.25% Senior Secured Notes	(173)	—	—	—	(173)	—	—	—	(173)
Repayment of Acquisition Corp. 5.625% Senior Secured Notes	(28)	—	—	—	(28)	—	—	—	(28)
Call premiums paid on early redemption of debt	(27)	—	—	—	(27)	—	—	—	(27)
Deferred financing costs paid	(13)	—	—	—	(13)	—	—	—	(13)
Distribution to noncontrolling interest holder	—	—	(4)	—	(4)	—	—	—	(4)
Dividends paid	—	(54)	—	—	(54)	—	—	—	(54)
Change in due to (from) issuer	—	41	—	(41)	—	—	—	—	—
Net cash used in financing activities	(39)	(13)	(4)	(41)	(97)	—	—	—	(97)
Effect of exchange rate changes on cash and equivalents	—	—	2	—	2	—	—	—	2
Net increase in cash and equivalents	—	110	98	—	208	—	—	—	208

Cash and equivalents at beginning of period	—	180	179	—	359	—	—	—	359
Cash and equivalents at end of period	$—	$ 290	$ 277	$ —	$ 567	$—	$—	$ —	$ 567

Consolidating Statement of Cash Flows (Unaudited)

For The Nine Months Ended June 30, 2016

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Cash flows from operating activities									
Net income	$48	$ 122	$ 53	$ (171)	$ 52	$ 29	$ 29	$ (77)	$ 33
Adjustments to reconcile net income (loss) to net cashprovided by operating activities:									
Depreciation and amortization	—	120	105						