Warner Music Group Corp.
Form 10-Q
February 06, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended December 31, 2013

OR

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

Warner Music Group Corp.

(Exact name of Registrant as specified in its charter)

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

75 Rockefeller Plaza

New York, NY 10019

(Address of principal executive offices)

(212) 275-2000

(Registrant's telephone number, including area code)

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

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

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

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

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

There is no public market for the Registrant's common stock. As of February 6, 2014 the number of shares of the Registrant's common stock, par value $0.001 per share, outstanding was 1,055. All of the Registrant's common stock is owned by affiliates of Access Industries, Inc. The Registrant has filed all Exchange Act reports for the preceding 12 months.

WARNER MUSIC GROUP CORP.

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ITEM 1. FINANCIAL STATEMENTS
Warner Music Group Corp.

Consolidated Balance Sheets (Unaudited)

| | December 31, 2013 | September 30, 2013 |
|---|---|---|
| | (in millions) | |
| Assets | | |
| Current assets: | | |
| Cash and equivalents | $129 | $ 155 |
| Accounts receivable, less allowances of $79 and $55 million | 566 | 511 |
| Inventories | 34 | 33 |
| Royalty advances expected to be recouped within one year | 105 | 93 |
| Deferred tax assets | 43 | 43 |
| Prepaid and other current assets | 61 | 59 |
| Total current assets | 938 | 894 |
| Royalty advances expected to be recouped after one year | 195 | 173 |
| Property, plant and equipment, net | 181 | 180 |
| Goodwill | 1,677 | 1,668 |
| Intangible assets subject to amortization, net | 3,074 | 3,107 |
| Intangible assets not subject to amortization | 120 | 120 |
| Other assets | 103 | 110 |
| Total assets | $6,288 | $ 6,252 |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Accounts payable | $246 | $ 280 |
| Accrued royalties | 1,203 | 1,147 |
| Accrued liabilities | 288 | 321 |
| Accrued interest | 58 | 75 |
| Deferred revenue | 192 | 139 |
| Current portion of long-term debt | 68 | 13 |
| Other current liabilities | 21 | 25 |
| Total current liabilities | 2,076 | 2,000 |
| Long-term debt | 2,858 | 2,854 |
| Deferred tax liabilities, net | 422 | 439 |
| Other noncurrent liabilities | 234 | 216 |
| Total liabilities | $5,590 | $ 5,509 |
| Equity: | | |
| Common stock ($0.001 par value; 10,000 shares authorized; 1,055 shares issued and outstanding) | — | — |
| Additional paid-in capital | 1,128 | 1,128 |
| Accumulated deficit | (378 ) | (341 ) |
| Accumulated other comprehensive loss, net | (69 ) | (61 ) |
| Total Warner Music Group Corp. equity | $681 | $ 726 |
| Noncontrolling interest | 17 | 17 |
| Total equity | 698 | 743 |

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

See accompanying notes

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Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

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

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

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Warner Music Group Corp.

Consolidated Statement of Comprehensive Loss (Unaudited)

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

See accompanying notes

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Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

| | Three Months Ended December 31, 2013 | Three Months Ended December 31, 2012 |
|---|---|---|
| | (in millions) | |
| Cash flows from operating activities | | |
| Net loss | $ (36 ) | $ (79 ) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Loss on extinguishment of debt | — | 83 |
| Depreciation and amortization | 78 | 61 |
| Deferred income taxes | (16 ) | (10 ) |
| Non-cash share-based compensation expense | 3 | — |
| Non-cash interest expense | 4 | 2 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (56 ) | (23 ) |
| Inventories | (1 ) | 1 |
| Royalty advances | (35 ) | (35 ) |
| Accounts payable and accrued liabilities | (79 ) | (53 ) |
| Royalty payables | 56 | 32 |
| Accrued interest | (17 ) | (49 ) |
| Deferred income | 60 | 55 |
| Other balance sheet changes | (13 ) | 5 |
| Net cash used in operating activities | (52 ) | (10 ) |
| Cash flows from investing activities | | |
| Acquisition of music publishing rights | (10 ) | (8 ) |
| Investments and acquisitions of businesses, net of cash acquired | (4 ) | — |
| Capital expenditures | (12 ) | (7 ) |
| Net cash used in investing activities | (26 ) | (15 ) |
| Cash flows from financing activities | | |
| Proceeds from draw down of the Revolving Credit Facility | 155 | 31 |
| Repayment of the Revolving Credit Facility | (100 ) | (31 ) |
| Proceeds from issuance of Acquisition Corp 6.00% Senior Secured Notes | — | 500 |
| Proceeds from issuance of Acquisition Corp 6.25% Senior Secured Notes | — | 227 |
| Proceeds from Acquisition Corp Term Loan Facility | — | 594 |
| Repayment of Acquisition Corp 9.5% Senior Secured Notes | — | (1,250 ) |
| Financing costs paid | — | (127 ) |
| Deferred financing costs paid | — | (30 ) |
| Distributions to noncontrolling interest holder | (1 ) | — |
| Net cash provided by (used in) financing activities | 54 | (86 ) |
| Effect of exchange rate changes on cash and equivalents | (2 ) | (2 ) |
| Net decrease in cash and equivalents | (26 ) | (113 ) |
| Cash and equivalents at beginning of period | 155 | 302 |
| Cash and equivalents at end of period | $ 129 | $ 189 |

See accompanying notes

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Warner Music Group Corp.

Consolidated Statement of Equity (Unaudited)

| | Common Stock | | | | | Total | | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Value | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Warner Music Group Corp. Equity | Noncontrolling Interests | Total Equity |
| | (in millions, except per share amounts) | | | | | | | |
| Balance at September 30, 2013 | 1,055 | $0.001 | $ 1,128 | $ (341) | $ (61) | $ 726 | $ 17 | $ 743 |
| Net (loss) income | — | — | — | (37) | — | (37) | 1 | (36) |
| Other comprehensive loss, net of tax | — | — | — | — | (8) | (8) | — | (8) |
| Distribution to noncontrolling interest | — | — | — | — | — | — | (1) | (1) |
| Balance at December 31, 2013 | 1,055 | $0.001 | $ 1,128 | $ (378) | $ (69) | $ 681 | $ 17 | $ 698 |

See accompanying notes

Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited)

1. Description of Business

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

Acquisition of Warner Music Group by Access Industries

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

PLG Acquisition

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

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

Recorded Music Operations

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

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

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

The Company's Recorded Music distribution operations include Warner-Elektra-Atlantic Corporation ("WEA Corp."), which markets and sells music and video products to retailers and wholesale distributors in the U.S., Alternative Distribution Alliance ("ADA"), which distributes the products of independent labels to retail and wholesale distributors in the U.S.; various distribution centers and ventures operated internationally, an 80% interest in Word, which specializes in the distribution of music products in the Christian retail marketplace, and the Company's worldwide artist and label-services organization, including ADA Worldwide, which provides distribution services outside of the U.S. through a network of affiliated and non-affiliated distributors.

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

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

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

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

Music Publishing Operations

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

The Company’s Music Publishing operations include Warner/Chappell, its global Music Publishing company, headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. The Company owns or controls rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, its award-winning catalog includes over 65,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative, gospel and other Christian music. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Lucasfilm, Ltd., Hallmark Entertainment and Disney Music Publishing. Since 2012, Warner/Chappell has been making an effort to augment its film and TV music business, with the acquisitions of certain songs and recordings from numerous critically acclaimed films and TV shows. These acquisitions will help Warner/Chappell take advantage of the higher margins and strong synchronization and performance income in the TV/film space. The Company’s production music library business includes Non-Stop Music, Groove Addicts Production Music Library, Carlin Recorded Music Library and 615 Music, collectively branded as Warner/Chappell Production Music.

## 2. Basis of Presentation

### Interim Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended December 31, 2013 are not necessarily indicative of the results that may be expected for the fiscal year ended September 30, 2014.

The consolidated balance sheet at September 30, 2013 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by U.S. GAAP for complete financial statements.

For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2013 (File No. 001-32502).

Basis of Consolidation

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

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

The Company maintains a 52-53 week fiscal year ending on the Friday nearest to each reporting date. As such, all references to December 31, 2013 and December 31, 2012 relate to the three-month periods ended December 27, 2013 and December 28, 2012, respectively. For convenience purposes, the Company continues to date its financial statements as of December 31.

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

New Accounting Pronouncements

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

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

In July 2013, the FASB issued ASU 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists ("ASU 2013-11"). ASU 2013-11 attempts to eliminate diversity in practice by requiring an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. ASU 2013-11 is effective for annual and interim reporting periods for fiscal years beginning after December 15, 2013. The adoption of this standard is not expected to have a significant impact on the Company's financial statements, other than presentation.

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3. Comprehensive Income (Loss)

Comprehensive income (loss), which is reported in the accompanying consolidated statements of equity (deficit), consists of net income (loss) and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income (loss). For the Company, the components of other comprehensive income (loss) primarily consist of foreign currency translation gains and losses, minimum pension liabilities, and deferred gains and losses on financial instruments designated as hedges under FASB ASC Topic 815, Derivatives and Hedging ("ASC 815"), which include interest-rate swap and foreign exchange contracts. The following summary sets forth the changes in the components of accumulated other comprehensive loss, net of related taxes:

| | Foreign Currency Translation Gain (Loss) | Minimum Pension Liability Adjustment | Deferred Gains (Losses) On Derivative Financial Instruments | Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|---|
| | (in millions) | | | |
| Balance at September 30, 2013 | $(57) | $ (4) | $ — | $ (61) |
| Other comprehensive loss (a) | (8) | — | — | (8) |
| Amounts reclassified from accumulated other comprehensive income | — | — | — | — |
| Balance at December 31, 2013 | $(65) | $ (4) | $ — | $ (69) |

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

4. Acquisition of Parlophone Label Group

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

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

On July 1, 2013, the Company completed the Acquisition. In connection with the Acquisition, the Company incurred $20 million in professional fees and integration costs during the three months ended December 31, 2013 and $38 million in professional fees and integration costs, as well as an $11 million fee under the Management Agreement (defined below), during the fiscal year ended September 30, 2013.

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

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

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

* Amounts have been adjusted based on new information obtained during the measurement period.

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

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

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

| | Value (in millions) | Useful Life |
|---|---|---|
| Trademark and trade name | $ 17 | Indefinite |
| Catalog | 442 | 13 years |
| Artist contracts | 305 | 10 years |

Pro Forma Financial Information (unaudited)

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

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

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

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

## 5. Goodwill and Intangible Assets

### Goodwill

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

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

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

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

Other Intangible Assets

Other intangible assets consist of the following:

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

6. Debt

Debt Capitalization

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

| | December 31, 2013 | September 30, 2013 |
|---|---|---|
| | (in millions) | |
| Revolving Credit Facility (a) | 55 | — |
| Term Loan Facility due 2020—Acquisition Corp. (b) | 1,303 | 1,303 |
| 6.00% Senior Secured Notes due 2021—Acquisition Corp. | 450 | 450 |
| 6.25% Senior Secured Notes due 2021—Acquisition Corp. (c) | 216 | 213 |
| 11.5% Senior Notes due 2018—Acquisition Corp. (d) | 752 | 751 |
| 13.75% Senior Notes due 2019—Holdings | 150 | 150 |
| Total debt | $2,926 | $ 2,867 |
| Less: current portion | 68 | 13 |
| Total long-term debt | $2,858 | $ 2,854 |

(a) Reflects $150 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $11 million and $1 million at December 31, 2013 and September 30, 2013, respectively. There were $55 million of loans outstanding under the Revolving Credit Facility at December 31, 2013, included in the current portion of long term debt. There were no loans outstanding at September 30, 2013.

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

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

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

2012 Debt Refinancing

On November 1, 2012, the Company completed a refinancing (the "2012 Refinancing") of its then outstanding senior secured notes due 2016. In connection with the 2012 Refinancing, the Company issued new senior secured notes consisting of $500 million aggregate principal amount of Senior Secured Notes due 2021 and €175 million aggregate principal amount of Senior Secured Notes due 2021 (the "New Secured Notes") and entered into new senior secured credit facilities consisting of a $600 million term loan facility (the "Term Loan Facility") and a $150 million revolving credit facility (the "Revolving Credit Facility" and, together with Term Loan Facility, the "New Senior Credit Facilities"). Acquisition Corp. is the borrower under the Revolving Credit Facility (the "Revolving Borrower") and under the Term Loan Facility (the "Term Loan Borrower"). The proceeds from the 2012 Refinancing, together with $101 million of the Company's available cash, were used to pay the total consideration due in connection with the tender offers for all of the Company's previously outstanding $1.250 billion 9.50% senior secured notes due 2016 (the "Old Secured Notes") as well as associated fees and expenses and to redeem all of the remaining notes not tendered in the tender offers. The Company also retired its existing $60 million revolving credit facility (the "Old Revolving Credit Facility") in connection with the 2012 Refinancing, replacing it with the Revolving Credit Facility. The Company also borrowed $31 million under the Revolving Credit Facility as part of the 2012 Refinancing, which loans were repaid in full on December 3, 2012.

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

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

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

On May 9, 2013, Acquisition Corp. prepaid $102.5 million in aggregate principal amount of term loans under the Term Loan Facility (the "Term Loan Repayment"). Also on May 9, 2013, Acquisition Corp. entered into an amendment to the Term Loan Facility among Acquisition Corp, Holdings, the subsidiaries of Acquisition Corp. party thereto, Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the "Term Loan Credit Agreement Amendment"), providing for a $820 million delayed draw senior secured term loan facility (the "Incremental Term Loan Facility"). On July 1, 2013, Acquisition Corp. drew down the $820 million Incremental Term Loan Facility to fund the acquisition of PLG, pay fees, costs and expenses related to the acquisition and for general corporate purposes of Acquisition Corp. and its subsidiaries.

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

Debt Redemptions

On June 21, 2013, Acquisition Corp. redeemed 10% of its Senior Secured Notes due 2021, representing repayment of $50 million in aggregate principal amount of its outstanding 6.000% Senior Secured Notes due 2021 and €17.5 million in aggregate principal amount of its outstanding 6.250% Senior Secured Notes due 2021. The Company recorded a loss on extinguishment of debt of approximately $2 million in the fiscal year ended September 30, 2013, which represents the premium paid on early redemption.

Interest Rates

The loans under the Revolving Credit Facility bear interest at Revolving Borrower's election at a rate equal to (i) the rate for deposits in the currency in which the applicable borrowing is denominated in the London interbank market (adjusted for maximum reserves) for the applicable interest period ("Revolving LIBOR Rate"), plus 2.00% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) the overnight federal funds rate plus 0.50% and (z) the one-month Revolving LIBOR Rate plus 1.0% per annum ("Revolving Base Rate"), plus, in each case, 1.00% per annum. If there is a payment default at any time, then the interest rate applicable to overdue principal will be the rate otherwise applicable to such loan plus 2.0% per annum. Default interest will also be payable on other overdue amounts at a rate of 2.0% per annum above the amount that would apply to an alternative base rate loan. The Revolving Credit Facility bears a facility fee equal to 0.50%, payable quarterly in arrears, based on the daily commitments during the preceding quarter. The Revolving Credit Facility bears customary letter of credit fees. Acquisition Corp. is also required to pay certain upfront fees to lenders and agency fees to the agent under the Revolving Credit Facility, in the amounts and at the times agreed between the relevant parties.

The loans under the Term Loan Facility bear interest at Term Loan Borrower's election at a rate equal to (i) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period ("Term Loan LIBOR Rate"), plus 2.75% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) the overnight federal funds rate plus 0.50% and (z) the one-month Term Loan LIBOR Rate plus 1.0% per annum ("Term Loan Base Rate"), plus, in each case, 1.75% per annum. The Term Loan LIBOR Rate shall be deemed to be not less than 1.00%. If there is a payment default at any time, then the interest rate applicable to overdue principal and interest will be the rate otherwise applicable to such loan plus 2.0% per annum. Default interest will also be payable on other overdue amounts at a rate of 2.0% per annum above the amount that would apply to an alternative base rate loan.

Amortization and Maturity of Term Loan Facility

The loans under the amended Term Loan Facility amortize in equal quarterly installments due December, March, June and September in aggregate annual amounts equal to 1.00% of the original principal amount of the amended Term Loan Facility with the balance payable on maturity date of the Term Loans. The amended Term Loan Facility matures on July 1, 2020, with a springing maturity date on July 2, 2018 in the event that more than $153 million aggregate principal amount of the 11.50% Senior Notes of Acquisition Corp. due October 1, 2018 are outstanding on June 28, 2018 unless, on June 28, 2018, the senior secured indebtedness to EBITDA ratio of Acquisition Corp. is less than or equal to 3.50 to 1.00.

Maturity of Revolving Credit Facility

The Revolving Credit Facility matures on November 1, 2017.

Maturities of Senior Notes

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

Interest Expense, net

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

7. Restructuring

In conjunction with the Acquisition, the Company undertook a plan to achieve cost savings (the "Restructuring Plan"), primarily through headcount reductions. The Restructuring Plan was approved by the CEO prior to the close of the Acquisition. Under the Restructuring Plan, the Company currently expects to record an aggregate of approximately $85 million in restructuring charges, currently estimated to be made up of employee-related costs of $61 million, real estate costs of $18 million and other costs of $6 million. Total restructuring costs of $7 million were incurred in the three months ended December 31, 2013 with respect to these actions, which consist entirely of employee-related costs. Total costs to date under the Restructuring Plan are $29 million, including total cash payments of $23 million. The remainder of the Restructuring Plan is expected to be completed by the end of fiscal 2015.

Total restructuring activity is as follows:

| | Employee-related Costs | Real Estate Costs | Other | Total |
|---|---|---|---|---|
| | (in millions) | | | |
| Balance at September 30, 2013 | $10 | $ — | $ — | $10 |
| Restructuring expense | 7 | — | — | 7 |
| Cash Payments | (11) | — | — | (11) |
| Balance at December 31, 2013 | $6 | $ — | $ — | $6 |

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

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

| | Three months ended December 31, 2013 (in millions) |
|---|---|
| Selling, general and administrative expense | $ 7 |
| Total restructuring expense | $ 7 |

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

8. Share-Based Compensation Plans

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

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

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

The following is a summary of the Company's share awards for the period ended December 31, 2013:

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

| | | | | | Intrinsic Value | Grant-Date Intrinsic Value |
|---|---|---|---|---|---|---|
| Unvested units at September 30, 2013 | 24 | 24 | $ 134.62 | $ 27.49 | $ 107.13 | $ — |
| Granted | — | — | 134.62 | 27.49 | 107.13 | — |
| Vested | (5 ) | — | 134.62 | 27.49 | 107.13 | — |
| Forfeited | (1 ) | (1 ) | 134.62 | 27.49 | 107.13 | — |
| Unvested units at December 31, 2013 | 18 | 23 | 134.62 | 27.49 | 107.13 | — |

The weighted-average grant date intrinsic value of deferred equity unit awards for the period ended December 31, 2013 was $107.13. The fair value of these deferred equity units at December 31, 2013 was $134.62. There was no such activity in the comparable prior year period.

Compensation Expense

The Company recognized non-cash compensation expense related to its share-based compensation plan of $3 million for the three months ended December 31, 2013. Of the $3 million, $2 million related to awards for employees and $1 million related to awards for non-employees for the three months ended December 31, 2013.

In addition, as of December 31, 2013, the Company had approximately $16 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 3 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. The parties have filed amended pleadings complying with the court's order, and the case is currently in discovery. 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

Foreign Currency Risk

The Company uses derivative financial instruments, primarily foreign currency forward exchange contracts (“FX 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 FX Contracts primarily to hedge its royalty payments and balance sheet items denominated in foreign currency, including Euro denominated debt. The Company applies hedge accounting to FX Contracts for cash flows related to royalty payments The Company records these FX Contracts in the consolidated balance sheet at fair value and changes in fair value are recognized in Other Comprehensive Income (“OCI”) for unrealized items and recognized in earnings for realized items. The Company elects to not apply hedge accounting to foreign currency exposures related to balance sheet items. The Company records these FX Contracts in the consolidated balance sheet at fair value and changes in fair value are immediately recognized in earnings. Fair value is determined by using observable market transactions of spot and forward rates (i.e., Level 2 inputs) which is discussed further in Note 13.

Netting provisions are provided for in existing International Swap and Derivative Association Inc. (“ISDA”) 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.

Historically, the Company has used, and continues to use, foreign exchange forward contracts and foreign exchange options 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. In addition, the Company currently hedges foreign currency risk associated with financing transactions such as third-party and inter-company debt and other balance sheet items.

For royalty-related hedges, the Company records foreign exchange contracts at fair value on its balance sheet and the related 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. For hedges of financing transactions and other balance sheet items, hedge gains and losses are taken directly to the statement of operations where there is an equal and offsetting entry related to the underlying exposure. Gains and losses on foreign exchange contracts generally are included as a component of other income (expense), net, in the Company's consolidated statement of operations.

As of December 31, 2013, the Company had outstanding hedge contracts for the sale of $89 million and the purchase of $783 million of foreign currencies at fixed rates. As of December 31, 2013, 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 $249 million and the purchase of $1.044 billion 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.

Interest Rate Risk

The Company has $2.946 billion of principal debt outstanding at December 31, 2013, of which $1.365 billion is variable rate debt. As such, the Company is exposed to changes in interest rates. At December 31, 2013, 54% of the Company's debt was at a fixed rate. In addition, at December 31, 2013, all of the Company's floating rate debt under the 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.

In addition to the $1.365 billion of variable rate debt, the Company also had $1.581 billion of fixed-rate debt. Based on the level of interest rates prevailing at December 31, 2013, the fair value of the fixed-rate and variable rate debt was approximately $3.120 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. 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 $10 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.

The Company monitors its positions with, and the credit quality of, the financial institutions that are party to any of its financial transactions. The following is a summary of amounts recorded in the Consolidated Balance Sheet pertaining to the Company's use of foreign currency derivatives at December 31, 2013 and September 30, 2013:

| | December 31, 2013[(a)] | September 30, 2013[(b)] |
|---|---|---|
| | (in millions) | |
| Other current assets | $ – | $ 1 |
| Other current liabilities | (13 ) | (23 ) |

(a) Includes $4 million and $17 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 and non-cash impairment charges to reduce the carrying value of goodwill and 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 inter-company 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 consists of the following:

| Three Months Ended | Recorded music | Music publishing | Corporate expenses and eliminations | Total |
|---|---|---|---|---|
| | (in millions) | | | |
| December 31, 2013 | | | | |
| Revenues | $691 | $ 128 | $ (4) | $815 |
| OIBDA | 93 | 19 | (19) | 93 |
| Depreciation of property, plant and equipment | (8) | (1) | (3) | (12) |
| Amortization of intangible assets | (50) | (16) | — | (66) |
| Operating income (loss) | $35 | $ 2 | $ (22) | $15 |
| December 31, 2012 | | | | |
| Revenues | $657 | $ 116 | $ (4) | $769 |
| OIBDA | 114 | 16 | (18) | 112 |
| Depreciation of property, plant and equipment | (7) | (2) | (4) | (13) |
| Amortization of intangible assets | (33) | (15) | — | (48) |
| Operating income (loss) | $74 | $ (1) | $ (22) | $51 |

## 12. Additional Financial Information

### Cash Interest and Taxes

The Company made interest payments of approximately $68 million and $100 million during the three months ended December 31, 2013 and December 31, 2012, respectively. The Company paid approximately $3 million and $5 million of income and withholding taxes, net of refunds, during the three months ended December 31, 2013 and December 31, 2012, respectively.

## 13. Fair Value Measurements

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

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

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

In accordance with the fair value hierarchy, described above, the following table shows the fair value of the Company's financial instruments that are required to be measured at fair value as of December 31, 2013 and September 30, 2013. Balances in other current and other non-current liabilities represent purchase obligations and contingent consideration related to the Company's various acquisitions. Derivatives not designated as hedging instruments represent the balances in other current assets and other current liabilities below and the gains and losses on these financial instruments are included as a component of other (expense) income, net, in the statement of operations.

| | Fair Value Measurements as of December 31, 2013 | | | |
|---|---|---|---|---|
| | (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) | $ — | $ (13) | $ — | $ (13) |
| Other Current Liabilities: | | | | |
| Contractual Obligations (b) | $ — | $ — | $ (14) | $ (14) |
| Other Non-Current Liabilities: | | | | |
| Contractual Obligations (b) | $ — | $ — | $ (7) | $ (7) |
| Total | $ — | $ (13) | $ (21) | $ (34) |

| | 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 assets and liabilities classified as Level 3:

| | Total (in millions) |
|---|---|
| Balance at September 30, 2013 | $ 22 |
| Additions | 2 |
| Payments | (3 ) |
| Balance at December 31, 2013 | $ 21 |

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 an impairment exists, the asset is written down to its fair value. In addition, an impairment analysis is performed at least annually for goodwill and indefinite-lived intangible assets.

Fair Value of Debt

Based on the level of interest rates prevailing at December 31, 2013, the fair value of the Company's debt was $3.120 billion. Unrealized gains or losses on debt do not result in the realization or expenditure of cash and generally are not recognized for financial reporting purposes unless the debt is retired prior to its maturity.

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Financial Statements

The Company is the direct parent of Holdings, which is the direct parent of Acquisition Corp. Holdings has issued and outstanding the 13.75% Senior Notes due 2019 (the “Holdings Notes”). In addition, Acquisition Corp. has issued and outstanding the 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) and which are not guarantors of the Holdings Notes, (iv) the eliminations necessary to arrive at the information for the Company on a consolidated basis. Investments in consolidated or combined subsidiaries are presented under the equity method of accounting.

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

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

December 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 |
|---|---|---|---|---|---|---|---|---|---|
| Assets: | | | | | | | | | |
| Current assets: | | | | | | | | | |
| Cash and equivalents | $ | $ 10 | $ 119 | $ | $ 129 | $ | $ | $ | $ 129 |
| Accounts receivable, net | | 183 | 383 | | 566 | | | | 566 |
| Inventories | | 9 | 25 | | 34 | | | | 34 |
| Royalty advances expected to be recouped within one year | | 58 | 47 | | 105 | | | | 105 |
| Deferred tax assets | | 20 | 23 | | 43 | | | | 43 |
| Prepaid and other current assets | 5 | 8 | 48 | | 61 | | | | 61 |
| Total current assets | 5 | 288 | 645 | | 938 | | | | 938 |
| Royalty advances expected to be recouped after one year | | 107 | 88 | | 195 | | | | 195 |
| Investments in and advances to (from) consolidated subsidiaries | 2,806 | 894 | | (3,700) | | 829 | 681 | (1,510) | |
| Property, plant and equipment, net | | 103 | 78 | | 181 | | | | 181 |
| Goodwill | | 1,379 | 298 | | 1,677 | | | | 1,677 |
| Intangible assets subject to amortization, net | | 989 | 2,085 | | 3,074 | | | | 3,074 |
| Intangible assets not subject to amortization | | 75 | 45 | | 120 | | | | 120 |
| Due (to) from parent companies | 797 | 23 | (820) | | | | | | |
| Other assets | 65 | 12 | 19 | | 96 | 7 | | | 103 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Total assets | $3,673 | $ 3,870 | $ 2,438 | $ (3,700) | $ 6,281 | $ 836 | $ 681 | $ (1,510) | $ 6,288 |
| Liabilities and Deficit: | | | | | | | | | |
| Current liabilities: | | | | | | | | | |
| Accounts payable | $ | $ 75 | $ 171 | $ | $ 246 | $ | $ | $ | $ 246 |
| Accrued royalties | | 513 | 690 | | 1,203 | | | | 1,203 |
| Accrued liabilities | | 66 | 222 | | 288 | | | | 288 |
| Accrued interest | 53 | | | | 53 | 5 | | | 58 |
| Deferred revenue | | 114 | 78 | | 192 | | | | 192 |
| Current portion of long-term debt | 68 | | | | 68 | | | | 68 |
| Other current liabilities | | 16 | 5 | | 21 | | | | 21 |
| Total current liabilities | 121 | 784 | 1,166 | | 2,071 | 5 | | | 2,076 |
| Long-term debt | 2,708 | | | | 2,708 | 150 | | | 2,858 |
| Deferred tax liabilities, net | | 127 | 295 | | 422 | | | | 422 |
| Other noncurrent liabilities | 15 | 83 | 136 | | 234 | | | | 234 |
| Total liabilities | 2,844 | 994 | 1,597 | | 5,435 | 155 | | | 5,590 |
| Total Warner Music Group Corp. equity (deficit) | 829 | 2,876 | 824 | (3,700) | 829 | 681 | 681 | (1,510) | 681 |
| Noncontrolling interest | | | 17 | | 17 | | | | 17 |
| Total equity (deficit) | 829 | 2,876 | 841 | (3,700) | 846 | 681 | 681 | (1,510) | 698 |
| Total liabilities and equity (deficit) | $3,673 | $ 3,870 | $ 2,438 | $ (3,700) | $ 6,281 | $ 836 | $ 681 | $ (1,510) | $ 6,288 |

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 |
| Royalty advances expected to be recouped after one year | | 109 | 64 | | 173 | | | | 173 |
| Investments in and advances to (from) consolidated subsidiaries | 2,811 | 930 | | (3,741 ) | | 879 | 726 | (1,605 ) | |
| 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 |
| Due (to) from parent companies | 799 | (27 ) | (772 ) | | | | | | |
| 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 |

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Three Months Ended December 31, 2013

| | WMG Acquisition Corp. (issuer) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | WMG Acquisition Corp. Consolidated | WMG Holdings Corp. (issuer) | Warner Music Group Corp. | Eliminations | Warner Music Group Corp. Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| | (in millions) | | | | | | | | |
| Revenues | $ | $ 354 | $ 510 | $ (49) | $ 815 | $ | $ | $ | $ 815 |
| Costs and expenses: | | | | | | | | | |
| Cost of revenues | | (155) | (335) | 49 | (441) | | | | (441) |
| Selling, general and administrative expenses | | (115) | (179) | 1 | (293) | | | | (293) |
| Amortization of intangible assets | | (30) | (36) | | (66) | | | | (66) |
| Total costs and expenses | | (300) | (550) | 50 | (800) | | | | (800) |
| Operating income (expense) | | 54 | (40) | 1 | 15 | | | | 15 |
| Interest income (expense), net | (31) | 1 | (20) | | (50) | (5) | | | (55) |
| Equity gains (losses) from consolidated subsidiaries | (21) | (13) | | 34 | | (32) | (37) | 69 | |
| Other income (expense), net | 12 | (14) | (2) | | (4) | | | | (4) |
| (Loss) income before income taxes | (40) | 28 | (62) | 35 | (39) | (37) | (37) | 69 | (44) |
| Income tax benefit (expense) | 8 | (4) | 7 | (3) | 8 | | | | 8 |
| Net (loss) income | (32) | 24 | (55) | 32 | (31) | (37) | (37) | 69 | (36) |
| Less: loss attributable to noncontrolling interest | | | (1) | | (1) | | | | (1) |
| Net (loss) income attributable to Warner Music Group Corp. | $ (32) | $ 24 | $ (56) | $ 32 | $ (32) | $ (37) | $ (37) | $ 69 | $ (37) |

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statements of Operations (Unaudited)

For The Three Months Ended December 31, 2012

| | 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 | $ | $ 344 | $ 481 | $ (56 ) | $ 769 | $ | $ | $ | $ 769 |
| Costs and expenses: | | | | | | | | | |
| Cost of revenues | | (162 ) | (295 ) | 49 | (408 ) | | | | (408 ) |
| Selling, general and administrative expenses | | (123 ) | (154 ) | 15 | (262 ) | | | | (262 ) |
| Amortization of intangible assets | | (30 ) | (18 ) | | (48 ) | | | | (48 ) |
| Total costs and expenses | | (315 ) | (467 ) | 64 | (718 ) | | | | (718 ) |
| Operating income (expense) | | 29 | 14 | 8 | 51 | | | | 51 |
| Loss on extinguishment of debt | (83) | | | | (83 ) | | | | (83 ) |
| Interest (expense) income, net | (43) | 1 | (5 ) | | (47 ) | (6 ) | | | (53 ) |
| Equity gains (losses) from consolidated subsidiaries | 41 | (17 ) | | (24 ) | | (74 ) | (80 ) | 154 | |
| Other expense, net | | (5 ) | | | (5 ) | | | | (5 ) |
| (Loss) income before income taxes | (85) | 8 | 9 | (16 ) | (84 ) | (80 ) | (80 ) | 154 | (90 ) |
| Income tax benefit (expense) | 11 | 10 | (1 ) | (9 ) | 11 | | | | 11 |
| Net (loss) income | (74) | 18 | 8 | (25 ) | (73 ) | (80 ) | (80 ) | 154 | (79 ) |
| Less: loss attributable to noncontrolling interest | | | (1 ) | | (1 ) | | | | (1 ) |
| Net (loss) income attributable to Warner Music Group Corp. | $(74) | $ 18 | $ 7 | $ (25 ) | $ (74 ) | $ (80 ) | $ (80 ) | $ 154 | $ (80 ) |

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Comprehensive Income (Unaudited)

For The Three Months Ended December 31, 2013

| | WMG Acquisition Corp. (issuer) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | WMG Acquisition Corp. Consolidated | WMG Holdings Corp. (issuer) | Warner Music Group Corp. | Eliminations | Warner Music Group Corp. Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| | (in millions) | | | | | | | | |
| Net (loss) income | $ (32) | $ 24 | $ (55) | $ 32 | $ (31) | $ (37) | $ (37) | $ 69 | $ (36) |
| Other comprehensive loss, net of tax: | | | | | | | | | |
| Foreign currency translation adjustment | (8) | | (8) | 8 | (8) | (8) | (8) | 16 | (8) |
| Other comprehensive loss, net of tax: | (8) | | (8) | 8 | (8) | (8) | (8) | 16 | (8) |
| Total comprehensive (loss) income | (40) | 24 | (63) | 40 | (39) | (45) | (45) | 85 | (44) |
| Comprehensive income attributable to noncontrolling interest | | | (1) | | (1) | | | | (1) |
| Comprehensive (loss) income attributable to Warner Music Group Corp. | $ (40) | $ 24 | $ (64) | $ 40 | $ (40) | $ (45) | $ (45) | $ 85 | $ (45) |

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Comprehensive Income (Unaudited)

For The Three Months Ended December 31, 2012

| | WMG Acquisition Corp. (issuer) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | WMG Acquisition Corp. Consolidated | WMG Holdings Corp. (issuer) | Warner Music Group Corp. | Eliminations | Warner Music Group Corp. Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| | (in millions) | | | | | | | | |
| Net (loss) income | $ (74) | $ 18 | $ 8 | $ (25) | $ (73) | $ (80) | $ (80) | $ 154 | $ (79) |
| Other comprehensive income, net of tax: | | | | | | | | | |
| Foreign currency translation adjustment | 2 | | 2 | (2) | 2 | 2 | 2 | (4) | 2 |
| Other comprehensive income, net of tax: | 2 | | 2 | (2) | 2 | 2 | 2 | (4) | 2 |
| Total comprehensive (loss) income | (72) | 18 | 10 | (27) | (71) | (78) | (78) | 150 | (77) |
| Comprehensive loss attributable to noncontrolling interest | | | (1) | | (1) | | | | (1) |
| Comprehensive (loss) income attributable to Warner Music Group Corp. | $ (72) | $ 18 | $ 9 | $ (27) | $ (72) | $ (78) | $ (78) | $ 150 | $ (78) |

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WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Cash Flows (Unaudited)

For The Three Months Ended December 31, 2013

| | WMG Acquisition Corp. (issuer) | Guarantor Subsidiaries | Non-Guarantor Subsidiaries | Eliminations | WMG Acquisition Corp. Consolidated | WMG Holdings Corp. (issuer) | Warner Music Group Corp. | Eliminations | Warner Music Group Corp. Consolidated |
|---|---|---|---|---|---|---|---|---|---|
| | (in millions) | | | | | | | | |
| Cash flows from operating activities: | | | | | | | | | |
| Net (loss) income | $ (32) | $ 24 | $ (55) | $ 32 | $ (31) | $ (37) | $ (37) | $ 69 | $ (36) |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | | | | | | | | |
| Depreciation and amortization | | 38 | 40 | | 78 | | | | 78 |
| Deferred income taxes | | | (16) | | (16) | | | | (16) |
| Non-cash interest expense | 4 | | | | 4 | | | | 4 |
| Non-cash share-based compensation expense | | 3 | | | 3 | | | | 3 |
| Equity (gains) losses, including distributions | 21 | 13 | | (34) | | 32 | 37 | (69) | |
| Changes in operating assets and liabilities: | | | | | | | | | |
| Accounts receivable | | 2 | (58) | | (56) | | | | (56) |
| Inventories | | 1 | (2) | | (1) | | | | (1) |
| Royalty advances | | 2 | (37) | | (35) | | | | (35) |
| Accounts payable and accrued liabilities | | (109) | 51 | (21) | (79) | | | | (79) |
| Royalty payables | | (56) | 112 | | 56 | | | | 56 |
| Accrued interest | (12) | | | | (12) | (5) | | | (17) |
| Deferred income | | 60 | | | 60 | | | | 60 |
| Other balance sheet changes | 3 | 3 | (42) | 23 | (13) | | | | (13) |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Net cash (used in) provided by operating activities | (16) | (19) | (7) | | (42) | (10) | | | (52) |
| Cash flows from investing activities: | | | | | | | | | |
| Acquisition of music publishing rights | | (6) | (4) | | (10) | | | | (10) |
| Change in due to (from) subsidiaries | (29) | | | 29 | | | | | |
| Capital expenditures | | (9) | (3) | | (12) | | | | (12) |
| Investments and acquisitions of businesses, net of cash acquired | | (1) | (3) | | (4) | | | | (4) |
| Net cash (used in) provided by investing activities | (29) | (16) | (10) | 29 | (26) | | | | (26) |
| Cash flows from financing activities: | | | | | | | | | |
| Dividend by Acquisition Corp.to Holdings Corp. | (10) | | | | (10) | 10 | | | |
| Distribution to noncontrolling interest holder | | | (1) | | (1) | | | | (1) |
| Proceeds from draw down of the Revolving Credit Facility | 155 | | | | 155 | | | | 155 |
| Repayment of the Revolving Credit Facility | (100) | | | | (100) | | | | (100) |
| Change in due (from) to issuer | | 29 | | (29) | | | | | |
| Net cash (used in) provided by financing activities | 45 | 29 | (1) | (29) | 44 | 10 | | | 54 |
| Effect of foreign currency exchange rate changes on cash | | | (2) | | (2) | | | | (2) |
| Net (decrease) increase in cash and equivalents | | (6) | (20) | | (26) | | | | (26) |
| Cash and equivalents at beginning of period | | 16 | 139 | | 155 | | | | 155 |
| Cash and equivalents at end of period | $ | $ 10 | $119 $ | $ | $ 129 | $ | $ | $ | $ 129 |

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Statement of Cash Flows (Unaudited)

For The Three Months Ended December 31, 2012

| | 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 | $(74) | $ 18 | $ 8 | $ (25) | $ (73) | $ (80) | $ (80) | $ 154 | $ (79) |
| 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 | | 39 | 22 | | 61 | | | | 61 |
| Deferred income taxes | | | (10) | | (10) | | | | (10) |
| Non-cash interest expense | 2 | | | | 2 | | | | 2 |
| Equity (gains) losses, including distributions | (41) | 17 | | 24 | | 74 | 80 | (154) | |
| Changes in operating assets and liabilities: | | | | | | | | | |
| Accounts receivable | | (14) | (9) | | (23) | | | | (23) |
| Inventories | | 1 | | | 1 | | | | 1 |
| Royalty advances | | (25) | (10) | | (35) | | | | (35) |
| Accounts payable and accrued liabilities | | 29 | (80) | (2) | (53) | | | | (53) |
| Royalty payables | | (36) | 68 | | 32 | | | | 32 |
| Accrued interest | (44) | | | | (44) | (5) | | | (49) |
| Deferred income | | 40 | 15 | | 55 | | | | 55 |
| Other balance sheet changes | 11 | (14) | 5 | 3 | 5 | | | | 5 |
| Net cash (used in) provided by operating activities | (63) | 55 | 9 | | 1 | (11) | | | (10) |
| Cash flows from investing activities: | | | | | | | | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Acquisition of music publishing rights | | (6) | (2) | | (8) | | (8) |
| Change in due to (from) subsidiaries | 106 | | | (106) | | | |
| Capital expenditures | | (4) | (3) | | (7) | | (7) |
| Net cash (used in) provided by investing activities | 106 | (10) | (5) | (106) | (15) | | (15) |
| Cash flows from financing activities: | | | | | | | |
| Dividend by Acquisition Corp.to Holdings Corp. | (2) | | | | (2) | 2 | |
| Proceeds from draw down of 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 | (29) | | | | (29) | (1) | (30) |
| Change in due to (from) issuer | | (106) | | 106 | | | |
| Net cash (used in) provided by financing activities | (87) | (106) | | 106 | (87) | 1 | (86) |
| Effect of foreign currency exchange rate changes on cash | | | (2) | | (2) | | (2) |
| Net (decrease) increase in cash and equivalents | (44) | (61) | 2 | | (103) | (10) | (113) |
| Cash and equivalents at beginning of period | 44 | 105 | 143 | | 292 | 10 | 302 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Cash and equivalents at end of period | $ | $ 44 | $ 145 | $ | $ 189 | $ | $ | $ | $ 189 |

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## 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 December 31, 2013 (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 Annual 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 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 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;

our reliance on one company as the primary supplier for the manufacturing, packaging and physical distribution of our products in the U.S. 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 months ended December 31, 2013 and December 31, 2012. 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 three months ended December 31, 2013 and December 31, 2012 as well as a discussion of our financial condition and liquidity as of December 31, 2013. 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.

Recent Developments

Acquisition of the Parlophone Label Group

On February 6, 2013, the Company signed a definitive agreement to acquire Parlophone Label Group (“PLG”) from Universal Music Group, a division of Vivendi, for £487 million, subject to a closing working capital adjustment, in an all-cash transaction (the “Acquisition”) pursuant to a Share Sale and Purchase Agreement (the “PLG Agreement”). On July 1, 2013, we completed the Acquisition. 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 Acquisition. WMG has rebranded these businesses, respectively, as Warner Classics and Erato following the Acquisition.

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 exploited by digital streaming services such as Beats Music, Deezer, Rhapsody and Spotify, and digital radio services such as Pandora, iTunes Radio and iHeart Radio.

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.

Factors Affecting Results of Operations and Financial Condition

Market Factors

Since 1999, the industry has experienced negative growth rates on a global basis and the worldwide recorded music market has contracted considerably, which has adversely affected our operating results. While there are signs of industry stabilization, with IFPI reporting that global recorded music industry revenues grew 0.2% in 2012, the first time in the last 13 years that the industry grew on a year-over-year basis, and, according to the RIAA, the estimated retail value of the U.S. recorded music industry declined by only 0.9% in 2012, a marked improvement after a decade of steep declines prior to 2011, in 2013, for the first time since the launch of iTunes, the U.S. music industry finished the year with a decrease in digital music sales and sales continued to fall in other countries 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. In addition, a declining recorded music industry could continue to have an adverse impact on portions of the music publishing business. This is because the music publishing business generates a portion of its revenues from mechanical royalties from the sale of music in CD and other physical recorded music formats.

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 Acquisition, we also incurred other integration and other nonrecurring costs related to the Acquisition. These costs amounted to approximately $20 million for the three months ended December 31, 2013 and were recorded in the consolidated statements of operation, $3 million within product costs and $17 million within general and administrative expense. Such costs were immaterial for the three months ended December 31, 2012. The total integration costs are expected to be approximately $77 million.

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

In conjunction with the 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 prior to the close of the Acquisition. Under the Restructuring Plan, we currently expect to record an aggregate of approximately $85 million in restructuring costs, currently estimated to be made up of employee-related costs of $61 million, real estate costs of $18 million and other costs of $6 million. Total restructuring costs of $7 million have been incurred during the three months ended December 31, 2013 with respect to these actions, which consist entirely of employee-related costs. Total restructuring costs of $29 million have been incurred to date under the Restructuring Plan. A significant portion of these charges have resulted and will continue to result in cash expenditures. Total cash payments of $23 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 $85 million in restructuring costs does not include other integration and other nonrecurring costs related to the 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 $7 million in cost savings. We expect to realize the remaining benefits of such synergies over the next 21 months. Although management currently believes such cost savings and other synergies will be realized from the 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 Acquisition) of $1 million for the three months ended December 31, 2013. We recorded severance charges (unrelated to the Acquisition) of $5 million for the three months ended December 31, 2012 as part of our actions to further align our cost structure with industry trends.

Expanding Business Models to Offset Declines in Physical Sales

Digital Distribution

A key part of our strategy to offset declines in physical sales is to expand digital sales and other digital distribution models. New digital models have enabled us to find additional ways to generate revenues from our music content. We are in the early stages of the transition from physical to digital sales, so overall sales decreased as the increases in digital sales were not yet offsetting decreases in physical sales. While there are signs of industry stabilization, the industry continues to be negatively 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 may not only purchase entire albums, but they may also “unbundle” albums and purchase only favorite tracks as single-track downloads. While to date, sales of 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 services, continue to develop. While it is believed within the recorded music industry that growth in digital revenue 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 higher mechanical copyright royalties payable to music publishers, which apply in the digital space. As consumer purchasing and consumption 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 other revenue streams, in addition to recorded music sales, such as touring, 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 represented approximately 10% of our total revenue during the three months ended December 31, 2013. 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 artist services 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 $2 million for both the three months ended December 31, 2013 and December 31, 2012, 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 December 31, 2013 Compared with Three Months Ended December 31, 2012

Consolidated Historical Results

Revenues

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

| | For the Three Months Ended December 31, | | 2013 vs. 2012 | |
|---|---|---|---|---|
| | 2013 | 2012 | $ Change | % Change |
| Revenue by Type | | | | |
| Physical | $ 273 | $ 300 | $(27) | -9 % |
| Digital | 256 | 237 | 19 | 8 % |
| Total Physical and Digital | 529 | 537 | (8) | -1 % |
| Artist services and expanded-rights | 84 | 60 | 24 | 40 % |
| Licensing | 78 | 60 | 18 | 30 % |
| Total Recorded Music | 691 | 657 | 34 | 5 % |
| Performance | 51 | 47 | 4 | 9 % |
| Mechanical | 27 | 26 | 1 | 4 % |
| Synchronization | 26 | 22 | 4 | 18 % |
| Digital | 21 | 19 | 2 | 11 % |
| Other | 3 | 2 | 1 | 50 % |
| Total Music Publishing | 128 | 116 | 12 | 10 % |
| Intersegment eliminations | (4) | (4) | — | — % |
| Total Revenue | $ 815 | $ 769 | $46 | 6 % |
| Revenue by Geographical Location | | | | |
| U.S. Recorded Music | $ 230 | $ 259 | $(29) | -11 % |
| U.S. Music Publishing | 41 | 35 | 6 | 17 % |
| Total U.S. | 271 | 294 | (23) | -8 % |
| International Recorded Music | 461 | 398 | 63 | 16 % |
| International Music Publishing | 87 | 81 | 6 | 7 % |
| Total International | 548 | 479 | 69 | 14 % |
| Intersegment eliminations | (4) | (4) | — | — % |
| Total Revenue | $ 815 | $ 769 | $46 | 6 % |

Total Revenue

Total revenue increased by $46 million, or 6%, to $815 million for the three months ended December 31, 2013 from $769 million for the three months ended December 31, 2012. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 84% and 16% of total revenue for the three months ended December 31, 2013 and 85% and 15% of total revenue for the three months ended December 31, 2012, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 33% and 67% of total revenue for the three months ended December 31, 2013 and 38% and 62% of total revenue for the three months ended December 31, 2012. Excluding the unfavorable impact of foreign currency exchange rates, total revenue increased by $52 million, or 7%.

Our total revenue for the three months ended December 31, 2013 included the impact of PLG revenue of $74 million, which reflects a light release schedule. Excluding the impact of PLG, total revenue decreased by $28 million, or 4%. 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 and synchronization revenue.

Total digital revenue after intersegment eliminations increased by $21 million, or 8%, to $276 million for the three months ended December 31, 2013 from $255 million for the three months ended December 31, 2012. Total digital revenue represented 34% and 33% of consolidated revenue for the three months ended December 31, 2013 and December 31, 2012, respectively. Prior to intersegment eliminations, total digital revenue for the three months ended December 31, 2013 was comprised of U.S. revenue of $134 million and international revenue of $143 million, or 48% and 52% of total digital revenue, respectively. Prior to intersegment eliminations, total digital revenue for the three months ended December 31, 2012 was comprised of U.S. revenue of $139 million and international revenue of $117 million, or 54% and 46% of total digital revenue, respectively. The weighting of U.S. versus international digital revenue changed primarily due to the additional PLG revenue which is more internationally weighted.

Recorded Music revenue increased by $34 million, or 5%, to $691 million for the three months ended December 31, 2013 from $657 million for the three months ended December 31, 2012. U.S. Recorded Music revenues were $230 million and $259 million, or 33% and 39% of consolidated Recorded Music revenues for the three months ended December 31, 2013 and December 31, 2012, respectively. International Recorded Music revenues were $461 million and $398 million, or 67% and 61% of consolidated Recorded Music revenues for the three months ended December 31, 2013 and December 31, 2012, respectively.

The overall increase in Recorded Music revenue was mainly driven by the additional $74 million in revenue from PLG. Excluding PLG, Recorded Music revenue declined $40 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 $67 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 slightly by $3 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 $33 million in total, and $22 million excluding the impact of PLG. Offsetting this growth was a $10 million decline in digital download revenue, or a $21 million decline excluding the impact of PLG revenue, mainly driven by a decline in the United States as well as a $4 million decline in mobile revenue. 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 $10 million in revenue from PLG, with the remaining increase attributed to new licensing deals and increased broadcast fees. Excluding the unfavorable impact of foreign currency exchange rates, total Recorded Music revenue increased by $40 million, or 6%.

Music Publishing revenues increased by $12 million, or 10%, to $128 million for the three months ended December 31, 2013 from $116 million for the three months ended December 31, 2012. U.S. Music Publishing revenues were $41 million and $35 million, or 32% and 30%, of Music Publishing revenues for the three months ended December 31, 2013 and December 31, 2012, respectively. International Music Publishing revenues were $87 million and $81 million, or 68% and 70%, of Music Publishing revenues for the three months ended December 31, 2013 and December 31, 2012, respectively.

The increase in Music Publishing revenue reflected a strong overall quarter driven by increases in performance revenue, synchronization revenue, digital revenue and 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 and was up $2 million primarily due to an 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 $23 million, or 8%, to $271 million for the three months ended December 31, 2013 from $294 million for the three months ended December 31, 2012. U.S. Recorded Music revenue declined $29 million, or $36 million excluding the impact of PLG revenue. The primary driver was the decline in U.S. Recorded Music physical revenue of $29 million, or $31 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", a release more heavily weighted toward physical sales. U.S. Recorded Music digital revenue declined $5 million, or $9 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 $4 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 $6 million primarily due to a $4 million increase in synchronization revenue as a result of a $3 million increase in commercial income, and a $1 million increase in mechanical revenue.

International revenue increased by $69 million, or 14%, to $548 million for the three months ended December 31, 2013 from $479 million for the three months ended December 31, 2012. International Recorded Music revenue increased $63 million primarily due to an additional $67 million in revenue from PLG. Excluding the impact of PLG, the $4 million decrease was due to the decline in physical revenue, which was not completely offset by increases in digital revenue, artist services and expanded-rights revenue and licensing revenue. While international Recorded Music physical revenue increased slightly by $2 million, the increase was mainly due to PLG physical revenue. Excluding PLG, physical revenue declined $36 million, as a result of 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 $24 million, or $6 million excluding the impact of PLG revenue. The main driver of the increase was a $14 million increase in streaming services revenue due to the increasing availability of streaming access models internationally, offset by a $4 million decline in mobile revenue and a $4 million decline in digital download revenue. International Recorded Music artist services and expanded-rights revenue increased $24 million, or $22 million excluding PLG revenue, due to higher concert promotion revenue, primarily resulting from a $10 million increase in Italy and a $13 million increase in France due to timing of tours. International Recorded Music Licensing revenue increased $13 million as a result of $9 million in revenue from PLG and increased broadcast fees. International Music Publishing revenue increased $6 million due to a $4 million increase in performance revenue due to the timing of a collection society distribution, and a $2 million increase in digital revenue due to an increase in streaming services revenue. Excluding the unfavorable impact of foreign currency exchange rates, total international revenue increased $75 million, or 16%.

Cost of revenues

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

| | For the Three Months Ended December 31, | | 2013 vs. 2012 | |
|---|---|---|---|---|
| | 2013 | 2012 | $ Change | % Change |
| Artist and repertoire costs | $ 279 | $ 266 | $ 13 | 5 % |
| Product costs | 162 | 142 | 20 | 14 % |
| Total cost of revenues | $ 441 | $ 408 | $ 33 | 8 % |

Total cost of revenues increased by $33 million, or 8%, to $441 million for the three months ended December 31, 2013 from $408 million for the three months ended December 31, 2012. Expressed as a percentage of revenues, cost of revenues increased to 54% for the three months ended December 31, 2013 from 53% for the three months ended December 31, 2012.

Artist and repertoire costs increased by $13 million, or 5%, to $279 million for the three months ended December 31, 2013 from $266 million for the three months ended December 31, 2012 primarily due to higher royalty expense associated with higher revenues. Artist and repertoire costs as a percentage of revenue decreased to 34% for the three months ended December 31, 2013 from 35% for the three months ended December 31, 2012 as a result of a shift towards higher margin deals in Music Publishing.

Product costs increased by $20 million, or 14%, to $162 million for the three months ended December 31, 2013 from $142 million for the three months ended December 31, 2012. The increase was primarily driven by an increase in the artist services and expanded-rights product cost associated with the increase in concert promotion revenue. Product costs also includes $3 million of other integration costs associated with the Acquisition, primarily related to supply chain integration. Product costs as a percentage of revenue increased to 20% for the three months ended December 31, 2013 from 18% for the three months ended December 31, 2012, 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 is composed of the following amounts (in millions):

| | For the Three Months Ended December 31, | | 2013 vs. 2012 | |
|---|---|---|---|---|
| | 2013 | 2012 | $ Change | % Change |
| General and administrative expense (1) | $ 161 | $ 128 | $ 33 | 26 % |
| Selling and marketing expense | 115 | 117 | (2 ) | -2 % |

| | | | | | |
|---|---|---|---|---|---|
| Distribution expense | 17 | 17 | — | — | % |
| Total selling, general and administrative expense | $ 293 | $ 262 | $31 | 12 | % |

(1) Includes depreciation expense of $12 million and $13 million for the three months ended December 31, 2013 and December 31, 2012, respectively.

Total selling, general and administrative expense increased by $31 million, or 12%, to $293 million for the three months ended December 31, 2013 from $262 million for the three months ended December 31, 2012. Expressed as a percentage of revenues, selling, general and administrative expense increased to 36% for the three months ended December 31, 2013 from 34% for the three months ended December 31, 2012. Total selling, general and administrative expense includes $12 million of PLG overhead costs.

General and administrative expense increased by $33 million, or 26%, to $161 million for the three months ended December 31, 2013 from $128 million for the three months ended December 31, 2012. The increase in general and administrative expense was primarily due to $7 million of restructuring costs, a $17 million increase in professional fees and other integration costs associated with the Acquisition, including transitional employees, and PLG overhead costs, partially offset by $4 million lower severance charges unrelated to the Acquisition. Expressed as a percentage of revenue, general and administrative expense increased to 20% for the three months ended December 31, 2013 from 17% for the three months ended December 31, 2012.

Selling and marketing expense decreased by $2 million, or 2%, to $115 million for the three months ended December 31, 2013 from $117 million for the three months ended December 31, 2012. The decrease in selling and marketing expense was primarily due to a comparatively light release schedule with lower proportionate marketing spend in the current period. Expressed as a percentage of revenue, selling and marketing expense decreased to 14% for the three months ended December 31, 2013 from 15% for the three months ended December 31, 2012 due to the restructuring and other integration costs noted above.

Distribution expense remained flat at $17 million for both the three months ended December 31, 2013 and December 31, 2012. Expressed as a percentage of revenue, distribution expense remained flat at 2% for the three months ended December 31, 2013 and December 31, 2012.

Reconciliation of Consolidated Historical 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 December 31, | | 2013 vs. 2012 | |
|---|---|---|---|---|
| | 2013 | 2012 | $ Change | % Change |
| OIBDA | $ 93 | $ 112 | $(19) | -17 % |
| Depreciation expense | (12) | (13) | 1 | 8 % |
| Amortization expense | (66) | (48) | (18) | -38 % |
| Operating income | 15 | 51 | (36) | -71 % |
| Loss on extinguishment of debt | — | (83) | 83 | 100 % |
| Interest expense, net | (55) | (53) | (2) | -4 % |
| Other expense, net | (4) | (5) | 1 | 20 % |
| Loss before income taxes | (44) | (90) | 46 | 51 % |
| Income tax benefit | 8 | 11 | (3) | -27 % |
| Net loss | (36) | (79) | 43 | 54 % |
| Less: income attributable to noncontrolling interest | (1) | (1) | — | — % |
| Net loss attributable to Warner Music Group Corp. | $ (37) | $ (80) | $43 | 54 % |

OIBDA

OIBDA decreased by $19 million, or 17%, to $93 million for the three months ended December 31, 2013 as compared to $112 million for the three months ended December 31, 2012 as a result of the flow through of higher revenue offset by 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 December 31, 2013 from 15% for the three months ended December 31, 2012.

Depreciation expense

Depreciation expense decreased by $1 million, or 8%, to $12 million for the three months ended December 31, 2013 from $13 million for the three months ended December 31, 2012.

Amortization expense

Amortization expense increased by $18 million, or 38%, to $66 million for the three months ended December 31, 2013 from $48 million for the three months ended December 31, 2012 due to the Acquisition and the resulting increase in amortizable intangible assets.

Operating income

Operating income decreased $36 million, or 71%, to $15 million, for the three months ended December 31, 2013 from $51 million for the three months ended December 31, 2012. 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. Operating income expressed as a percentage of total revenue decreased to 2% for the three months ended December 31, 2013 from 7% for the three months ended December 31, 2012.

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 three months ended December 31, 2012 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 three months ended December 31, 2013.

Interest expense, net

Our interest expense, net, increased by $2 million, or 4%, to $55 million for the three months ended December 31, 2013 from $53 million for the three months ended December 31, 2012. The increase was primarily driven by the additional debt incurred as a result of the Acquisition, partially offset by the refinancing of debt obligations to lower interest rates 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 $8 million for the three months ended December 31, 2013 as compared to $11 million for the three months ended December 31, 2012. The decrease in the income tax benefit primarily relates to a lower pretax loss for the three months ended December 31, 2013.

Net loss

Net loss decreased by $43 million, or 54%, to $36 million for the three months ended December 31, 2013 from $79 million for the three months ended December 31, 2012 as a result of the factors described above.

Noncontrolling interest

Income attributable to noncontrolling interest was $1 million for both the three months ended December 31, 2013 and December 31, 2012.

Business Segment Results

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

| | For the Three Months Ended December 31, | | 2013 vs. 2012 | |
|---|---|---|---|---|
| | 2013 | 2012 | $ Change | % Change |
| Recorded Music | | | | |
| Revenue | $ 691 | $ 657 | $ 34 | 5 % |
| OIBDA | 93 | 114 | (21) | -18 % |

| | | | | | |
|---|---|---|---|---|---|
| Operating income | $ 35 | $ 74 | $(39) | -53 | % |
| Music Publishing | | | | | |
| Revenue | $ 128 | $ 116 | $12 | 10 | % |
| OIBDA | 19 | 16 | 3 | 19 | % |
| Operating income (loss) | $ 2 | $ (1 ) | $3 | — | % |
| Corporate expenses and intersegment eliminations | | | | | |
| Revenue | $ (4 ) | $ (4 ) | $— | — | % |
| OIBDA | (19 ) | (18 ) | (1 ) | -6 | % |
| Operating loss | $ (22 ) | $ (22 ) | $— | — | % |
| Total | | | | | |
| Revenue | $ 815 | $ 769 | $46 | 6 | % |
| OIBDA | 93 | 112 | (19) | -17 | % |
| Operating income | $ 15 | $ 51 | $(36) | -71 | % |

Recorded Music

Revenues

Recorded Music revenue increased by $34 million, or 5%, to $691 million for the three months ended December 31, 2013 from $657 million for the three months ended December 31, 2012. U.S. Recorded Music revenues were $230 million and $259 million, or 33% and 39% of consolidated Recorded Music revenues for the three months ended December 31, 2013 and December 31, 2012, respectively. International Recorded Music revenues were $461 million and $398 million, or 67% and 61% of consolidated Recorded Music revenues for the three months ended December 31, 2013 and December 31, 2012, respectively.

The overall increase in Recorded Music revenue was mainly driven by the additional $74 million in revenue from PLG. Excluding PLG, Recorded Music revenue declined $40 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 $67 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 slightly by $3 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 $33 million in total, and $22 million excluding the impact of PLG. Offsetting this growth was a $10 million decline in digital download revenue, or a $21 million decline excluding the impact of PLG revenue, mainly driven by a decline in the United States as well as a $4 million decline in mobile revenue. 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 $10 million in revenue from PLG, with the remaining increase attributed to new licensing deals and increased broadcast fees. Excluding the unfavorable impact of foreign currency exchange rates, total Recorded Music revenue increased by $40 million, or 6%.

Cost of revenues

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

| | For the Three Months Ended December 31, 2013 | 2012 | 2013 vs. 2012 $ Change | % Change |
|---|---|---|---|---|
| Artist and repertoire costs | $ 191 | $ 183 | $ 8 | 4 % |
| Product costs | 162 | 142 | 20 | 14 % |
| Total cost of revenues | $ 353 | $ 325 | $ 28 | 9 % |

Recorded Music cost of revenues increased by $28 million, or 9%, to $353 million for the three months ended December 31, 2013 from $325 million for the three months ended December 31, 2012. 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 cost associated with the increase in concert promotion revenue. Product costs also includes $3 million of other integration costs associated with the 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 three months ended December 31, 2013 from 49% for the three months ended December 31, 2012 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 is composed of the following amounts (in millions):

| | For the Three Months Ended December 31, | | 2013 vs. 2012 | |
|---|---|---|---|---|
| | 2013 | 2012 | $ Change | % Change |
| General and administrative expense (1) | $ 121 | $ 93 | $ 28 | 30 % |
| Selling and marketing expense | 115 | 115 | — | — % |
| Distribution expense | 17 | 17 | — | — % |
| Total selling, general and administrative expense | $ 253 | $ 225 | $ 28 | 12 % |

(1) Includes depreciation expense of $8 million and $7 million for the three months ended December 31, 2013 and December 31, 2012, respectively.

Recorded Music selling, general and administrative expense increased by $28 million, or 12%, to $253 million for the three months ended December 31, 2013 from $225 million for the three months ended December 31, 2012. The $28 million increase in

Recorded Music selling, general and administrative expense was due to $7 million of restructuring expense, a $17 million increase in professional fees and other integration costs associated with the Acquisition, including transitional employees, and $12 million of PLG overhead costs partially offset by $4 million lower severance charges unrelated to the Acquisition and a decrease in selling and marketing expense due to a comparatively light release schedule with lower proportionate marketing spend. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense increased to 37% for the three months ended December 31, 2013 from 34% for the three months ended December 31, 2012 due to the restructuring and other integration costs noted above.

OIBDA and Operating Income

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

| | For the Three Months Ended December 31, | | 2013 vs. 2012 | |
|---|---|---|---|---|
| | 2013 | 2012 | $ Change | % Change |
| OIBDA | $ 93 | 114 | (21) | -18 % |
| Depreciation and amortization | (58) | (40) | (18) | -45 % |
| Operating income | $ 35 | $ 74 | $ (39) | -53 % |

Recorded Music OIBDA decreased by $21 million, or 18%, to $93 million for the three months ended December 31, 2013 from $114 million for the three months ended December 31, 2012 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 14% for the three months ended December 31, 2013 from 17% for the three months ended December 31, 2012. 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 $39 million, or 53% 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 Acquisition and the resulting increase in amortizable intangible assets.

Music Publishing

Revenues

Music Publishing revenues increased by $12 million, or 10%, to $128 million for the three months ended December 31, 2013 from $116 million for the three months ended December 31, 2012. U.S. Music Publishing revenues were $41 million and $35 million, or 32% and 30%, of Music Publishing revenues for the three months ended December 31, 2013 and December 31, 2012, respectively. International Music Publishing revenues were $87 million and $81 million, or 68% and 70%, of Music Publishing revenues for the three months ended December 31, 2013 and December 31, 2012, respectively.

The increase in Music Publishing revenue reflected a strong overall quarter driven by increases in performance revenue, synchronization revenue, digital revenue and 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 and was up $2 million primarily due to an increase in streaming services. There was no net impact of foreign currency exchange rates on total Music Publishing revenues.

Cost of revenues

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

| | For the Three Months Ended December 31, | | 2013 vs. 2012 | |
|---|---|---|---|---|
| | 2013 | 2012 | $ Change | % Change |
| Artist and repertoire costs | $ 92 | $ 87 | $ 5 | 6 % |
| Total cost of revenues | $ 92 | $ 87 | $ 5 | 6 % |

Music Publishing cost of revenues increased by $5 million, or 6%, to $92 million for the three months ended December 31, 2013 from $87 million for the three months ended December 31, 2012, primarily driven by the increase in revenue. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues decreased to 72% for the three months ended December 31, 2013 from 75% for the three months ended December 31, 2012 primarily due to the revenue mix.

Selling, general and administrative expense

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

| | For the Three Months Ended December 31, | | 2013 vs. 2012 | |
|---|---|---|---|---|
| | 2013 | 2012 | $ Change | % Change |
| General and administrative expense (1) | $ 18 | $ 15 | $ 3 | 20 % |
| Total selling, general and administrative expense | $ 18 | $ 15 | $ 3 | 20 % |

(1) Includes depreciation expense of $1 million and $2 million for the three months ended December 31, 2013 and December 31, 2012, respectively.

Music Publishing selling, general and administrative expense increased by $3 million, or 20%, to $18 million for the three months ended December 31, 2013 from $15 million for the three months ended December 31, 2012 primarily driven by a $1 million increase in professional fees and a $1 million 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 14% for the three months ended December 31, 2013 from 13% for the three months ended December 31, 2012.

OIBDA and Operating Income (Loss)

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

| | For the Three Months Ended December 31, | | 2013 vs. 2012 | |
|---|---|---|---|---|
| | 2013 | 2012 | $ Change | % Change |
| OIBDA | $ 19 | 16 | 3 | 19 % |
| Depreciation and amortization | (17 ) | (17 ) | — | — % |
| Operating income (loss) | $ 2 | $ (1 ) | $ 3 | — % |

Music Publishing OIBDA increased by $3 million, or 19%, to $19 million for the three months ended December 31, 2013 from $16 million for the three months ended December 31, 2012 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 15% for the three months ended December 31, 2013 from 14% for the three months ended December 31, 2012.

Music Publishing operating income (loss) increased by $3 million due to the factors that led to the increase in Music Publishing OIBDA noted above.

Corporate Expenses and Eliminations

Our OIBDA loss from corporate expenses and eliminations increased by $1 million to $19 million for the three months ended December 31, 2013 from $18 million for the three months ended December 31, 2012. The increase was mainly due to a $1 million increase in share-based compensation expense.

Our operating loss from corporate expenses and eliminations remained flat at $22 million for both the three months ended December 31, 2013 and December 31, 2012.

## FINANCIAL CONDITION AND LIQUIDITY

### Financial Condition

At December 31, 2013, we had $2.926 billion of debt, $129 million of cash and equivalents (net debt of $2.797 billion, defined as total debt less cash and equivalents) and $681 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 $85 million during the three months ended December 31, 2013 primarily as a result of (i) a $55 million increase in the current portion of long-term debt due to loans outstanding under the Revolving Credit Facility and (ii) a $26 million decrease in cash and equivalents.

The $45 million decrease in Warner Music Group Corp. equity during the three months ended December 31, 2013 was primarily due to $36 million of net loss for the three months ended December 31, 2013.

Cash Flows

The following table summarizes our historical cash flows. The financial data for the three months ended December 31, 2013 and December 31, 2012 are unaudited and are derived from our interim financial statements included elsewhere herein. The cash flow is composed of the following (in millions):

| | Three Months Ended December 31, 2013 | Three Months Ended December 31, 2012 |
|---|---|---|
| Cash (used in) provided by: | | |
| Operating activities | $ (52) | $ (10) |
| Investing activities | (26) | (15) |
| Financing activities | 54 | (86) |

Operating Activities

Cash used in operating activities was $52 million for the three months ended December 31, 2013 as compared with cash used in operating activities of $10 million for the three months ended December 31, 2012. Our first fiscal quarter is historically a use of operating cash in order to fund the needs around the timing of annual employee bonus payments, certain A&R investments, as well as the seasonality of physical holiday collections. The $42 million increase in cash used in operating activities is primarily due to the decrease in comparative OIBDA of $19 million and higher receivables of $33 million due to timing of releases and collections. This was partially offset by lower cash paid for interest of $32 million mainly due to a change in the timing of the interest payment cycle resulting from prior year refinancing activities.

Investing Activities

Cash used in investing activities was $26 million for the three months ended December 31, 2013 as compared with cash used in investing activities of $15 million for the three months ended December 31, 2012. The $26 million of cash used in investing activities in the three months ended December 31, 2013 consisted of $4 million of business acquisitions, $10 million to acquire music publishing rights and $12 million of capital expenditures. The business acquisition payments primarily related to contingent consideration on business acquisitions completed in prior years. The $15 million of cash used in investing activities in the three months ended December 31, 2012 consisted of $8 million to acquire music publishing rights and $7 million for capital expenditures. The $5 million increase in capital expenditures was primarily due to IT upgrades.

Financing Activities

Cash provided by financing activities of $54 million for the three months ended December 31, 2013 represented the $55 million net cash borrowings on the Revolving Credit Facility partially offset by $1 million of distributions to non-controlling interest holders. The total gross amount of proceeds from the Revolving Credit Facility of $155 million was an aggregate of all drawdowns during the period. As noted above, our fiscal first quarter historically has an operating use of cash due to working capital needs. Individual amounts were drawn and repaid during the period, resulting in a net draw of $55 million at period end, which was mainly used to supplement short-term U.S. operating liquidity needs. A significant portion of our operating cash balance resided outside of our U.S. operating companies. Cash used in financing activities of $86 million for the three months ended December 31, 2012 included the repayment of $1.250 billion of Existing Secured Notes due 2016, proceeds from the issuance of New Senior Secured Notes of $727 million, proceeds from the Term Loan Facility of $594 million, $127 million of consent fees and $30 million of deferred financing costs paid related to the 2012 refinancing.

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.

As of December 31, 2013, our long-term debt, including the current portion, was as follows (in millions):

| | |
|---|---|
| Revolving Credit Facility (a) | $55 |
| Term Loan Facility due 2020—Acquisition Corp. (b) | 1,303 |
| 6.00% Senior Secured Notes due 2021—Acquisition Corp. | 450 |
| 6.25% Senior Secured Notes due 2021—Acquisition Corp. (c) | 216 |
| 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 | $ 2,926 |

(a) Reflects $150 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $11 million at December 31, 2013. There were $55 million of loans outstanding under the Revolving Credit Facility at December 31, 2013, included in the current portion of long-term debt.
(b) Principal amount of $1.310 billion less unamortized discount of $7 million at December 31, 2013. Of this amount, $13 million at December 31, 2013, 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 December 31, 2013.
(d) Face amount of $765 million less unamortized discounts of $13 million at December 31, 2013.

Revolving Credit Facility

On November 1, 2012 (the "2012 Refinancing Closing Date"), Acquisition Corp. entered into a credit agreement (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").

General

Acquisition Corp. is the borrower (the "Revolving Borrower") under the Revolving Credit Facility. The Revolving Credit Facility 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 Facility permits loans for general corporate purposes. The Revolving Credit Facility may also be utilized to issue letters of credit on or after the 2012 Refinancing Closing Date.

The final maturity of the Revolving Credit Facility is November 1, 2017.

Interest Rates and Fees

Effective as of May 9, 2013, the loans under the Revolving Credit Agreement bear interest at Revolving Borrower's election at a rate equal to (i) the rate for deposits in the currency in which the applicable borrowing is denominated in the London interbank market (adjusted for maximum reserves) for the applicable interest period ("Revolving LIBOR Rate"), plus 2.00% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) the overnight federal funds rate plus 0.50% and (z) the one-month Revolving LIBOR Rate plus 1.0% per annum ("Revolving Base Rate"), plus, in each case, 1.00% per annum.

If there is a payment default at any time, then the interest rate applicable to overdue principal will be the rate otherwise applicable to such loan plus 2.0% per annum. Default interest will also be payable on other overdue amounts at a rate of 2.0% per annum above the amount that would apply to an alternative base rate loan.

The Revolving Credit Facility bears a facility fee equal to 0.50%, payable quarterly in arrears, based on the daily commitments during the preceding quarter. The Revolving Credit Facility bears customary letter of credit fees. Acquisition Corp. is also required to pay certain upfront fees to lenders and agency fees to the agent under the Revolving Credit Facility, in the amounts and at the times agreed between the relevant parties.

Prepayments

If, at any time, the aggregate amount of outstanding loans (including letters of credit outstanding thereunder) exceeds the Commitments, 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 and prepayments of borrowings under the Revolving Credit Facility are permitted at any time, in minimum principal amounts as set forth in the Revolving Credit Facility, without premium or penalty, subject to reimbursement of the lenders' redeployment costs actually incurred in the case of a prepayment of 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. 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 Term Loan Credit Agreement (as defined below), the New Secured Notes and any future senior secured credit facility or other senior secured indebtedness; is effectively senior to the Revolving Borrower's unsecured senior indebtedness, including its existing unsecured notes, 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)).

Guarantee

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 New 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.

Amendment

Acquisition Corp. entered into an amendment, dated April 23, 2013 (the “Revolving Credit Agreement Amendment”) to the Revolving Credit Agreement. The Revolving Credit Agreement Amendment reduced the applicable interest rate margin under the Revolving Credit Agreement and increased flexibility under the Revolving Credit Agreement to make investments in non-guarantors so as to permit internal reorganizations and optimization of ownership structure in foreign subsidiaries.

Term Loan Facility

On the 2012 Refinancing Closing Date, Acquisition Corp. entered into a credit agreement (the “Term Loan Credit Agreement”) for a senior secured term loan credit facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the “Term Loan Facility” and, together with the Revolving Credit Facility, the “New Senior Credit Facilities”).

General

Acquisition Corp. is the borrower (the “Term Loan Borrower”) under the Term Loan Facility. The Term Loan Facility provides for term loans thereunder (the “Term Loans”) in an amount of up to $600 million. On May 9, 2013, Acquisition Corp. entered into an amendment to the Term Loan Facility among Acquisition Corp, Holdings, the subsidiaries of Acquisition Corp. party thereto, Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the “Term Loan Credit Agreement Amendment”), providing for a $820 million delayed draw senior secured term loan facility (the “Incremental Term Loan Facility”).

The loans outstanding under the Amended Term Loan Credit Agreement 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 11.50% Senior Notes of Acquisition Corp. due October 1, 2018 (the “Unsecured WMG Notes”) are outstanding on June 28, 2018 unless, on June 28, 2018, the senior secured indebtedness to EBITDA ratio of Acquisition Corp. is less than or equal to 3.50 to 1.00.

Interest Rates and Fees

The loans under the 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 Rate”), plus 2.75% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) the overnight federal funds rate plus 0.50% and (z) the one-month Term Loan LIBOR Rate plus 1.0% per annum (“Term Loan Base Rate”), plus, in each case, 1.75% per annum. The Term Loan LIBOR Rate shall be deemed to be not less than 1.00%.

If there is a payment default at any time, then the interest rate applicable to overdue principal and interest will be the rate otherwise applicable to such loan plus 2.0% per annum. Default interest will also be payable on other overdue amounts at a rate of 2.0% per annum above the amount that would apply to an alternative base rate loan.

Customary fees will be payable in respect of the Term Loan Facility.

Scheduled Amortization

Loans outstanding under the Amended Term Loan Credit Agreement will amortize in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount of indebtedness outstanding under the Amended Term Loan Credit Agreement with the balance payable on the maturity date of the term loans. The loans outstanding under the Amended Term Loan Credit Agreement 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 11.50% Senior Notes of Acquisition Corp. due October 1, 2018 (the “Unsecured WMG Notes”) are outstanding on June 28, 2018 unless, on June 28, 2018, the senior secured indebtedness to EBITDA ratio of Acquisition Corp. is less than or equal to 3.50 to 1.00.

Prepayments

The Term Loans may be prepaid without premium or penalty, except that, if such Term Loans are prepaid on or prior to the first anniversary of the 2012 Refinancing Closing Date pursuant to a Repricing Transaction (as defined in the Term Loan Credit Agreement), a 1.00% prepayment premium will apply.

Subject to certain exceptions, the Term Loan Facility will be subject to mandatory prepayment in an amount equal to:

(i) 100% of the net proceeds (other than those that are used to purchase certain assets or to repay certain other indebtedness) of certain asset sales and certain insurance recovery events;
(ii) 100% of the net proceeds (other than those that are used to repay certain other indebtedness) of indebtedness for borrowed money (other than indebtedness incurred in compliance with the debt covenant of the Term Loan Facility); and
(iii) 50% of the annual excess cash flow for any fiscal year (as reduced by the repayment of certain indebtedness), such percentage to decrease to 25% and 0% depending on the attainment of certain senior secured debt to EBITDA ratio targets.

In addition, in the event of certain events that constitute a Change of Control (as defined in the Term Loan Credit Agreement), Acquisition Corp. may offer to prepay the Term Loans at a price equal to 100% of their principal amount, plus accrued and unpaid interest, if any, to the repayment date.

Ranking

The indebtedness incurred under the Term Loan Facility constitutes senior secured obligations of the Term Loan Borrower, which are secured on an equal and ratable basis with all existing and future indebtedness secured with the same security arrangements as the Term Loan Facility. Indebtedness incurred under the Term Loan Facility ranks senior in right of payment to the Term Loan Borrower's subordinated indebtedness; ranks equally in right of payment with all of the Term Loan Borrower's existing and future senior indebtedness, including indebtedness under the Revolving Credit Facility, the New Secured Notes and any future senior secured credit facility or other senior secured indebtedness; is effectively senior to the Term Loan Borrower's unsecured senior indebtedness, including its existing unsecured notes, to the extent of the value of the collateral securing the Term Loan Facility; and is structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of the Term Loan Borrower's non-guarantor subsidiaries (other than indebtedness and liabilities owed to the Term Loan Borrower or one of its Subsidiary Guarantors).

Guarantee

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.

Covenants, Representations and Warranties

The Term Loan Facility contains customary representations and warranties and customary affirmative and negative covenants. The Term Loan Facility contains negative 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; repurchase or repay certain indebtedness following a change of control; and enter into certain transactions with its affiliates.

Events of Default

Events of default under the Term Loan 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 security documents and a change of control (subject to the Term Loan Borrower's ability to make an offer to prepay the Term Loans), in each case subject to customary notice and grace period provisions.

Term Loan Credit Agreement Amendment

On May 9, 2013, Acquisition Corp. entered into the Term Loan Credit Agreement Amendment to the Term Loan Credit Agreement, among Acquisition Corp., Holdings, the subsidiaries of Acquisition Corp. party thereto, Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto. The Amended Term Loan Credit Agreement provided for a $820 million delayed draw senior secured term loan facility (the “Incremental Term Loan Facility”) and the Term Loan Credit Agreement Amendment (i) effectuated a reduction of the applicable interest margin and the Term Loan LIBOR Rate floor for term loans outstanding on the date of the amendment and (ii) extended the maturity of term loans outstanding on the date of the amendment.

On May 9, 2013, Acquisition Corp. prepaid $102.5 million in aggregate principal amount of term loans under the Term Loan Facility.

New Secured Notes

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 “New Secured Notes” or the “Notes”) under the Indenture, dated as of November 1, 2012 (the “Base Indenture”), among the Issuer, 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 the Issuer, 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 "Indenture").

Interest on the Dollar Notes will accrue at the rate of 6.000% per annum and will be payable semi-annually in arrears on January 15 and July 15, commencing on July 15, 2013.

Interest on the Euro Notes will accrue at the rate of 6.250% per annum and will be 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 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 Notes. The Notes rank senior in right of payment to the Issuer's subordinated indebtedness; rank equally in right of payment with all of the Issuer's existing and future senior indebtedness, including indebtedness under the New Senior Credit Facilities and any future senior secured credit facility or other senior secured indebtedness; are effectively senior to the Issuer's unsecured senior indebtedness, including its existing unsecured notes, to the extent of the value of the collateral securing the Notes; and are structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of the Issuer'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 Notes are fully and unconditionally guaranteed on a senior secured basis by each of the Issuer's existing direct or indirect wholly-owned domestic restricted subsidiaries and by any such subsidiaries that guarantee obligations of the Issuer under the New 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 Notes (including the subsidiary guarantor's guarantee of obligations under the New 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 Acquisition Corp.'s existing senior 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 obligations under the New Senior Credit Facilities; 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 the Issuer or one of its subsidiary guarantors). Any subsidiary guarantee of the Notes may be released in certain circumstances.

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 securities constituting Dollar Notes) issued under the 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 Indenture (including the aggregate principal amount of any additional securities constituting Dollar Notes issued under the 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 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 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).

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 securities constituting Euro Notes) issued under the 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 Indenture (including the aggregate principal amount of any additional securities 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 the Issuer, 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 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 Notes has the right to require Acquisition Corp. to repurchase some or all of such holder's 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 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 Indenture also provides for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on Notes to become or to be declared due and payable.

Unsecured WMG Notes

On the Merger Closing Date, the Initial OpCo Issuer issued $765 million aggregate principal amount of the Unsecured WMG Notes pursuant to the Indenture, dated as of the Merger Closing Date (as amended and supplemented, the "Unsecured WMG Notes Indenture"), between the Initial OpCo Issuer and Wells Fargo Bank, National Association as trustee (the "Trustee"). Following the completion of the OpCo Merger on the Merger Closing Date, Acquisition Corp. and certain of its domestic subsidiaries (the "Guarantors") entered into a Supplemental Indenture, dated as of the Merger Closing Date (the "Unsecured WMG Notes First Supplemental Indenture"), with the Trustee, pursuant to which (i) Acquisition Corp. became a party to the indenture and assumed the obligations of the Initial OpCo Issuer under the Unsecured WMG Notes and (ii) each Guarantor became a party to the Unsecured WMG Notes Indenture and provided an unconditional guarantee of the obligations of Acquisition Corp. under the Unsecured WMG Notes.

The Unsecured WMG 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 will be amortized over the term of the Unsecured WMG Notes using the effective interest rate method and reported as non-cash interest expense. The Unsecured WMG Notes mature on October 1, 2018 and bear interest payable semi-annually on April 1 and October 1 of each year at a fixed rate of 11.50% per annum.

Ranking

The Unsecured WMG Notes are Acquisition Corp.'s general unsecured senior obligations. The Unsecured WMG 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 Secured Notes and indebtedness under the New Senior Credit Facilities are effectively subordinated to all of Acquisition Corp.'s existing and future secured indebtedness, including the New Secured Notes and indebtedness under the New Senior Credit Facilities, 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 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

The Unsecured WMG Notes are fully and unconditionally guaranteed on a senior unsecured 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 Existing Secured Notes, indebtedness under the Revolving Credit Facility and the Secured WMG Notes; is effectively subordinated to all of such subsidiary guarantor's existing and future secured indebtedness, including such subsidiary guarantor's guarantee of the Existing Secured Notes, indebtedness under the Revolving Credit Facility and the Secured WMG Notes, to the extent of the assets securing such indebtedness; 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 Unsecured WMG Notes may be released in certain circumstances. The Unsecured WMG Notes are not guaranteed by Holdings.

Optional Redemption

Acquisition Corp. may redeem the Unsecured WMG Notes, in whole or in part, at any time prior to October 1, 2014, at a price equal to 100% of the principal amount thereof, plus the applicable make-whole premium and accrued and unpaid interest and special interest, if any, on the Unsecured WMG Notes to be redeemed to the applicable redemption date. On or after October 1, 2014, Acquisition Corp. may redeem all or a part of the Unsecured WMG 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 Unsecured WMG 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 | |
|---|---|---|
| 2014 | 108.625 | % |
| 2015 | 105.750 | % |
| 2016 | 102.875 | % |
| 2017 and thereafter | 100.000 | % |

In addition, at any time (which may be more than once) before October 1, 2014, Acquisition Corp. may redeem up to 35% of the aggregate principal amount of the Unsecured WMG Notes with the net cash proceeds of certain equity offerings at a redemption price of 111.50%, 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 Unsecured WMG Notes originally issued under the Unsecured WMG 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, Acquisition Corp. is required to make an offer to repurchase all of Unsecured WMG 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 Unsecured WMG 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 Unsecured WMG Notes Indenture are limited to: the nonpayment of principal or interest when due, violation of covenants and other agreements contained in the Unsecured WMG Notes Indenture, cross payment default after final maturity and cross acceleration of certain material debt, certain bankruptcy and insolvency events, material judgment defaults, and actual or asserted invalidity of a guarantee of a significant subsidiary 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 Unsecured WMG Notes to become or to be declared due and payable.

Holdings Notes

On the Merger Closing Date, the Initial Holdings Issuer issued $150 million aggregate principal amount of 13.75% Senior Notes due 2019 issued by Holdings, the (“Holdings Notes”) pursuant to the Indenture, dated as of the Closing Date (as amended and supplemented, the “Holdings Notes Indenture”), between the Initial Holdings Issuer and Wells Fargo Bank, National Association as Trustee (the “Trustee”). Following the completion of the Holdings Merger on the Closing Date, Holdings entered into a Supplemental Indenture, dated as of the Closing Date (the “Holdings Notes First Supplemental Indenture”), with the 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 a 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 Secured Notes, the indebtedness under the Revolving Credit Facility, and the Secured WMG Notes, 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 (as such term is defined below)), Existing Secured Notes, the indebtedness under the Revolving Credit Facility, the Secured WMG Notes, and the Unsecured WMG Notes, to the extent of the assets of such subsidiaries.

Guarantee

The Holdings Notes are not guaranteed by any of its subsidiaries.

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 and special interest, if any, on the Secured WMG 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, 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 Holdings Notes to become or to be declared due and payable.

Guarantees

Guarantee of Holdings Notes

On August 2, 2011, the Company issued a guarantee whereby it agreed to fully and unconditionally guarantee (the "Holdings Notes Guarantee"), on a senior unsecured basis, the payments of Holdings on the Holdings Notes.

Guarantee of Acquisition Corp. Notes

On December 8, 2011, the Company issued a guarantee whereby it agreed to fully and unconditionally guarantee (the "Acquisition Corp. Notes Guarantee"), on a senior unsecured basis, the payments of Acquisition Corp. on the Unsecured WMG Notes.

Guarantee of New Secured Notes

On November 16, 2012, the Company issued a guarantee whereby it agreed to fully and unconditionally guarantee (the "New Secured Notes Guarantee"), on a senior secured basis, the payments of Acquisition Corp. on the New Secured Notes.

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 Term Loan Credit Facility as of December 31, 2013.

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 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

December 31, 2013. 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 December 31, 2013 |
|---|---|
| Net Loss | $ (130) |
| Income tax expense | (28) |
| Interest expense, net | 186 |
| Depreciation and amortization | 276 |
| Restructuring costs (a) | 36 |
| Net hedging and foreign exchange losses (b) | 9 |
| Management fees (c) | 8 |
| Transaction costs (d) | 72 |
| Business optimization expenses (e) | 12 |
| Pro forma savings (f) | 64 |
| Loss on extinguishment of debt (g) | 2 |
| Share-based compensation expense (h) | 22 |
| Other non-cash charges (i) | 3 |
| Consolidated EBITDA | $ 532 |
| Pro forma impact of specified transactions (j) | 75 |
| Pro Forma Consolidated EBITDA | $ 607 |
| Consolidated Funded Indebtedness (k) | $ 2,829 |
| Leverage Ratio (l) | 4.45x |

(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 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 December 31, 2013 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 $63 million, of the previously announced targeted savings following the PLG acquisition of approximately $70 million (less already achieved savings of approximately $7 million).

(g) Reflects 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 $75 million impact for the PLG acquisition, as if the specified transaction had occurred on the first day of the December 31, 2013 measurement period. This amount does not include the actual results related to PLG already included in the Consolidated Statements of Operations for the three months ended December 31, 2013 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.

(k) Reflects the principal balance of external debt at Acquisition Corp of $2.7 billion, plus the annualized daily Revolving Credit Facility borrowings of $39 million, plus contractual obligations of deferred purchase price of $8 million, plus contingent consideration related to acquisitions of $20 million, plus the implied principal component under capital lease obligation of $21 million.

(l) Reflects the ratio of Consolidated Funded Indebtedness to Consolidated EBITDA as of the twelve months ended December 31, 2013. This is calculated net of cash and equivalents of the Company as of December 31, 2013 not exceeding $150 million. If the outstanding aggregate principal amount of borrowings under our Revolving Credit Facility is greater than $30 million at the end of a fiscal quarter, the maximum leverage ratio permitted under our Revolving Credit Facility was 6.00x as of the end of the first quarter, 5.75x as of the end of the second and third quarters, and 5.50x as of the end of the fourth quarter of fiscal 2014. The Company’s Revolving Credit Facility does not impose any “leverage ratio” restrictions on the Company when the aggregate principal amount of borrowings under the 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 Holdings Notes, our New Secured Notes, or our Unsecured WMG Notes in 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 New Senior Credit Facilities, Holdings Notes, New Secured Notes, or Unsecured WMG Notes 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 December 31, 2013, other than as described below, there have been no material changes to the Company's exposure to market risk since September 30, 2013.

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 December 31, 2013, the Company had outstanding hedge contracts for the sale of $89 million and the purchase of $783 million of foreign currencies at fixed rates. Subsequent to December 31, 2013, 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 December 31, 2013, 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 $70 million. Because our foreign exchange contracts are entered into for hedging purposes, these losses would be largely offset by gains on the underlying transactions.

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 December 31, 2013 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. The parties have filed amended pleadings complying with the court's order, and the case is currently in discovery. 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. A wide range of risks may affect our business and financial results, now and in the future. We consider the risks described in Part I, Item 1A "Risk Factors" of our Form 10-K for the fiscal year ended September 30, 2013 to be the most significant. There may be other currently unknown or unpredictable economic, business, competitive, regulatory or other factors that could have material adverse effects on our future results.

## 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

Not applicable.

## 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.

Description

| Exhibit No. | |
|---|---|
| 10.1 | Amended and Restated Warner Music Group Senior Management Free Cash Flow Plan. † (1) |
| 10.2 | Form of Amended and Restated Limited Liability Company Agreement of WMG Management Holdings, LLC. † (1) |
| 10.3 | Form of Award Agreement. † (1) |
| 10.4 | Lease, dated as of October 1, 2013, between Paramount Group, Inc., as agent for PGREF I 1633 Broadway Tower, L.P., and WMG Acquisition Corp. (2) |
| 10.5 | Guaranty of Lease, dated as of October 1, 2013. (2) |
| 10.6 | Employment Letter dated December 1, 2013, between Warner Music Inc. and Brian Roberts. †* |
| 10.7 | Separation Agreement and Release, dated December 16, 2013, between Warner Music Inc. and Mark Ansorge. †* |
| 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* |

| Exhibit No. | Description |
|---|---|
| 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 December 31, 2013, filed on February 6, 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.

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

(1) Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on November 27, 2013 (File No. 001-32502).

(2) Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on October 4, 2013 (File No. 001-32502).

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.

February 6, 2014

WARNER MUSIC GROUP CORP.

| | |
|---|---|
| By: | /S/ STEPHEN COOPER |
| Name: | Stephen Cooper |
| Title: | Chief Executive Officer<br>(Principal Executive Officer) |

| | |
|---|---|
| By: | /S/ BRIAN ROBERTS |
| Name: | Brian Roberts |
| Title: | Chief Financial Officer<br>(Principal Financial Officer and Principal Accounting Officer) |

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