

Warner Music Group Corp.
Form 10-Q
August 04, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016

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 (I.R.S. Employer
incorporation or organization) Identification No.)

1633 Broadway

New York, NY 10019

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(Address of principal executive offices)

(212) 275-2000

(Registrant's telephone number, including area code)

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

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

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer 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 (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

There is no public market for the Registrant's common stock. As of August 4, 2016 the number of shares of the Registrant's common stock, par value \$0.001 per share, outstanding was 1,055. All of the Registrant's common stock is owned by affiliates of Access Industries, Inc. The Registrant has filed all Exchange Act reports for the preceding 12 months.

WARNER MUSIC GROUP CORP.

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ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Warner Music Group Corp.

Consolidated Balance Sheets (Unaudited)

| | June 30, 2016 | September 30, 2015 |
|--|---------------------|--------------------------|
| | (in millions) | |
| Assets | | |
| Current assets: | | |
| Cash and equivalents | \$ 345 | \$ 246 |
| Accounts receivable, net of allowances of \$64 million and \$56 million | 353 | 349 |
| Inventories | 38 | 42 |
| Royalty advances expected to be recouped within one year | 146 | 130 |
| Prepaid and other current assets | 60 | 60 |
| Total current assets | 942 | 827 |
| Royalty advances expected to be recouped after one year | 219 | 195 |
| Property, plant and equipment, net | 206 | 220 |
| Goodwill | 1,630 | 1,632 |
| Intangible assets subject to amortization, net | 2,269 | 2,514 |
| Intangible assets not subject to amortization | 118 | 119 |
| Other assets | 110 | 114 |
| Total assets | \$5,494 | \$ 5,621 |
| Liabilities and Equity | | |
| Current liabilities: | | |
| Accounts payable | \$ 156 | \$ 173 |
| Accrued royalties | 1,164 | 1,087 |
| Accrued liabilities | 269 | 296 |
| Accrued interest | 45 | 58 |
| Deferred revenue | 174 | 206 |
| Current portion of long-term debt | 113 | 13 |
| Other current liabilities | 29 | 24 |
| Total current liabilities | 1,950 | 1,857 |
| Long-term debt | 2,795 | 2,981 |
| Deferred tax liabilities, net | 281 | 302 |
| Other noncurrent liabilities | 236 | 242 |
| Total liabilities | \$5,262 | \$ 5,382 |
| 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 | (711) | (740) |
| Accumulated other comprehensive loss, net | (199) | (167) |

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| | | |
|---------------------------------------|---------|----------|
| Total Warner Music Group Corp. equity | 218 | 221 |
| Noncontrolling interest | 14 | 18 |
| Total equity | 232 | 239 |
| Total liabilities and equity | \$5,494 | \$ 5,621 |

See accompanying notes

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Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

| | Three Months Ended June 30, 2016 | | Nine Months Ended June 30, 2016 | |
|--|---|-------|--|---------|
| | 2015 | 2015 | 2015 | 2015 |
| | (in millions) | | (in millions) | |
| Revenue | \$811 | \$710 | \$2,405 | \$2,216 |
| Costs and expenses: | | | | |
| Cost of revenue | (448) | (373) | (1,271) | (1,136) |
| Selling, general and administrative expenses (a) | (255) | (251) | (787) | (799) |
| Amortization expense | (63) | (63) | (188) | (191) |
| Total costs and expenses | (766) | (687) | (2,246) | (2,126) |
| Operating income | 45 | 23 | 159 | 90 |
| Interest expense, net | (43) | (45) | (131) | (136) |
| Other (expense) income | | | | |