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)

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

1633 Broadway

New York, NY 10019

(Address of principal executive offices)

(212) 275-2000

(Registrant's telephone number, including area code)

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

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,		Nine Months Ended June 30,	
	2016	2015	2016	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	(5)	(17)	21	(12)
(Loss) income before income taxes	(3)	(39)	49	(58)
Income tax expense	(4)	(4)	(16)	(7)
Net (loss) income	(7)	(43)	33	(65)
Less: Income attributable to noncontrolling interest	(2)	(1)	(4)	(3)
Net (loss) income attributable to Warner Music Group Corp.	$(9)	$(44)	$29	$(68)
(a) Includes depreciation expense of:	$(12)	$(14)	$(37)	$(42)

See accompanying notes

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Warner Music Group Corp.

Consolidated Statements of Comprehensive Loss (Unaudited)

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2016	2015	2016	2015
	(in millions)		(in millions)	
Net (loss) income	$ (7)	$ (43)	$ 33	$ (65)
Other comprehensive loss, net of tax:				
Foreign currency adjustment	5	41	(31)	(49)
Deferred gains (losses) on derivative financial instruments	1	—	(1)	—
Other comprehensive income (loss), net of tax	6	41	(32)	(49)
Total comprehensive (loss) income	(1)	(2)	1	(114)
Less: Income attributable to noncontrolling interest	(2)	(1)	(4)	(3)
Comprehensive loss attributable to Warner Music Group Corp.	$ (3)	$ (3)	$ (3)	$ (117)

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Nine Months Ended June 30, 2016	Nine Months Ended June 30, 2015
	(in millions)	
Cash flows from operating activities		
Net income (loss)	$33	$ (65)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	225	233
Unrealized losses and remeasurement of foreign denominated loans	12	19
Deferred income taxes	(15)	(17)
Loss on extinguishment of debt	4	—
Net gain on divestitures	(8)	—
Gain on sale of real estate	(24)	—
Non-cash interest expense	8	8
Non-cash share-based compensation expense	9	—
Changes in operating assets and liabilities:		
Accounts receivable	(7)	16
Inventories	3	(3)
Royalty advances	(51)	(55)
Accounts payable and accrued liabilities	(47)	(86)
Royalty payables	103	35
Accrued interest	(13)	(12)
Deferred revenue	(35)	39
Other balance sheet changes	10	6
Net cash provided by operating activities	207	118
Cash flows from investing activities		
Acquisition of music publishing rights, net	(14)	(12)
Capital expenditures	(31)	(51)
Investments and acquisitions of businesses, net	(23)	(16)
Divestitures, net of cash on hand	27	—
Proceeds from the sale of real estate	42	—
Net cash provided by (used in) investing activities	1	(79)
Cash flows from financing activities		
Proceeds from the Revolving Credit Facility	—	258
Repayment of the Revolving Credit Facility	—	(258)
Repayment of Acquisition Corp. Senior Term Loan Facility	(10)	(10)
Repayment of Holdings 13.75% Senior Notes	(50)	—
Call premiums paid on early redemption of debt	(3)	—
Repayment of Acquisition Corp. 6.75% Senior Notes	(24)	—
Distribution to noncontrolling interest holder	(4)	(3)

Repayment of capital lease obligations	(14)	(2)
Net cash used in financing activities	(105)	(15)
Effect of exchange rate changes on cash and equivalents	(4)	(13)
Net increase in cash and equivalents	99	11
Cash and equivalents at beginning of period	246	157
Cash and equivalents at end of period	$345	$ 168

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Equity (Unaudited)

	Common Stock Shares	Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. Equity	Noncontrolling Interest	Total Equity
	(in millions, except share amounts)							
Balance at September 30, 2015	1,055	$ —	$ 1,128	$ (740)	$ (167)	$ 221	$ 18	$ 239
Net income	—	—	—	29	—	29	4	33
Other comprehensive loss, net of tax	—	—	—	—	(32)	(32)	—	(32)
Disposal of noncontrolling interest related to divestiture of business	—	—	—	—	—	—	(4)	(4)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(4)	(4)
Balance at June 30, 2016	1,055	$ —	$ 1,128	$ (711)	$ (199)	$ 218	$ 14	$ 232

See accompanying notes

Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited)

1. Description of Business

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

Acquisition of Warner Music Group by Access Industries

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

Acquisition of Parlophone Label Group

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

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

Recorded Music Operations

The Company’s Recorded Music business primarily consists of the discovery and development of artists and the related marketing, distribution and licensing of recorded music produced by such artists. The Company plays an integral role in virtually all aspects of the recorded music value chain from discovering and developing talent to producing albums and 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 Atlantic Records. The Company’s Recorded Music operations also include Rhino, a division that specializes in marketing the Company’s music catalog through compilations and reissuances of previously released music and video titles. The Company also conducts its Recorded Music operations through a collection of additional record labels, including, Asylum, Big Beat, Canvasback, Eastwest, Elektra, Erato, FFRR, Fueled by Ramen, Nonesuch, Parlophone, Reprise, Roadrunner, Sire, Warner Classics and Warner Music Nashville.

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

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

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

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

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

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

Music Publishing Operations

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

The Company’s Music Publishing operations are conducted principally through Warner/Chappell, its global Music Publishing company, headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. The Company owns or controls rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, its award-winning catalog includes over 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. The Company has an extensive production music library collectively branded as Warner/Chappell Production Music.

2. Summary of Significant Accounting Policies

Interim Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine month period ended June 30, 2016 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2016.

The consolidated balance sheet at September 30, 2015 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, 2015 (File No. 001-32502).

Basis of Consolidation

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

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

The Company maintains a 52-53 week fiscal year ending on the last Friday in each reporting period. As such, all references to June 30, 2016 and June 30, 2015 relate to the periods ended June 24, 2016 and June 26, 2015, respectively. For convenience purposes, the Company continues to date its financial statements as of June 30. The fiscal year ended September 30, 2015 ended on September 25, 2015. For convenience purposes, the Company continues to date its balance sheet as of September 30.

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

Income Taxes

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

New Accounting Pronouncements

During the first quarter of fiscal 2016, the Company adopted ASU 2015-17, Balance Sheet Classification of Deferred Taxes ("ASU 2015-17"). ASU 2015-17 requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The Company has elected to adopt this standard retrospectively, and thus the reclassification of prior period balances has been made. The application of ASU 2015-17 to the Company's September 30, 2015 Consolidated Balance Sheets resulted in a decrease to current deferred tax assets of $52 million, an increase to non-current deferred tax assets of $2 million, and a decrease to non-current deferred tax liabilities of $50 million.

In May 2014, the FASB issued guidance codified in ASC 606, Revenue Recognition – Revenue from Contracts with Customers ("ASC 606"), which replaces the guidance in former ASC 605, Revenue Recognition and ASC 928, Entertainment – Music. The amendment was the result of a joint effort by the FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and international financial reporting standards ("IFRS"). The joint project clarifies the principles for recognizing revenue and develops a common revenue standard for U.S. GAAP and IFRS. ASC 606 is effective for annual periods beginning after December 15, 2017, and interim periods within those years. Early application is not permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The update may be applied using one of two methods: retrospective application to each prior reporting period presented, or retrospective application with the cumulative effect of initially applying the update recognized at the date of initial application. The Company is currently evaluating the transition method that will be elected and the impact of the update on its financial statements and disclosures.

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). This ASU will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related disclosure when substantial doubt exists. ASU 2014-15 will be effective in the first annual period ending after December 15, 2016, and interim periods thereafter. Earlier adoption is permitted. The adoption of this standard is not expected to have a significant impact on the Company's financial statements, other than disclosure.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs (“ASU 2015-03”). This ASU will require that debt issuance costs are presented as a direct deduction to the related debt in the liability section of the balance sheet, rather than presented as an asset. ASU 2015-03 will be effective for annual periods beginning after December 15, 2015, and interim periods within those years. Earlier adoption is permitted. The adoption of this standard is not expected to have a significant impact on the Company’s financial statements, other than presentation.

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

In February 2016, the FASB issued ASU 2016-02, Leases (“ASU 2016-02”). This ASU establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. ASU 2016-02 will be effective for annual periods after December 15, 2018, and interim periods within those years. Earlier adoption is permitted. The adoption of this standard is not expected to have a significant impact on the Company’s financial statements, other than presentation.

In March 2016, the FASB issued ASU 2016-05, Derivatives and Hedging: Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships (“ASU 2016-05”) and ASU 2016-06, Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments (“ASU 2016-06”). ASU 2016-05 clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria continue to be met. ASU 2016-06 clarifies the steps required to determine bifurcation of an embedded derivative. ASU 2016- 05 and ASU 2016-06 are effective for annual periods after December 15, 2016, and interim periods within those years. Early adoption is permitted. The guidance may be adopted prospectively or by a modified retrospective approach. The adoption of this standard is not expected to have a significant impact on the Company’s financial statements.

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

3. Comprehensive Loss

Comprehensive loss, which is reported in the accompanying consolidated statements of equity, consists of net income (loss) and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income (loss). For the Company, the components of other comprehensive loss primarily consist of foreign currency translation losses and minimum pension liabilities. The following summary sets forth the changes in the components of accumulated other comprehensive loss, net of related taxes:

	Foreign Currency Translation Loss (a)	Minimum Pension Liability Adjustment	Deferred Losses On Derivative Financial Instruments	Accumulated Other Comprehensive Loss, net
	(in millions)			
Balance at September 30, 2015	$(157)	$ (10)	$ —	$ (167)
Other comprehensive loss	(31)	—	(1)	(32)
Amounts reclassified from accumulated other comprehensive income	—	—	—	—
Balance at June 30, 2016	$(188)	$ (10)	$ (1)	$ (199)

(a) Foreign currency translation adjustments include intra-entity foreign currency transactions that are of a long-term investment nature of $73.2 million.

4. Goodwill and Intangible Assets

Goodwill

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

	Recorded Music	Music Publishing	Total
	(in millions)		
Balance at September 30, 2015	$1,168	$ 464	$1,632
Acquisitions	10	—	10
Divestitures	(7)	—	(7)
Other adjustments (a)	(5)	—	(5)
Balance at June 30, 2016	$1,166	$ 464	$1,630

(a) Other adjustments during the nine months ended June 30, 2016 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 as of July 1. The Company may conduct an earlier review if events or circumstances occur that would suggest the carrying value of the Company's goodwill may not be recoverable. No indicators of impairment were identified during the current period that required the Company to perform an interim assessment or recoverability test.

Intangible Assets

Intangible assets consist of the following:

	Weighted Average Useful Life	June 30, 2016	September 30, 2015
		(in millions)	
Intangible assets subject to amortization:			
Recorded music catalog	10 years	$950	$ 992
Music publishing copyrights	27 years	1,486	1,497
Artist and songwriter contracts	13 years	901	926
Trademarks	7 years	7	7
Other intangible assets	7 years	4	—
Total gross intangible asset subject to amortization		3,348	3,422
Accumulated amortization		(1,079)	(908)
Total net intangible assets subject to amortization		2,269	2,514
Intangible assets not subject to amortization:			
Trademarks and tradenames	Indefinite	118	119
Total net intangible assets		$2,387	$ 2,633

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5. Debt

Debt Capitalization

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

	June 30, 2016	September 30, 2015
	(in millions)	
Revolving Credit Facility—Acquisition Corp. (a)	$—	$ —
Senior Term Loan Facility due 2020—Acquisition Corp. (b)	1,273	1,282
5.625% Senior Secured Notes due 2022—Acquisition Corp.	275	275
6.00% Senior Secured Notes due 2021—Acquisition Corp.	450	450
6.25% Senior Secured Notes due 2021—Acquisition Corp. (c)	175	177
6.75% Senior Notes due 2022—Acquisition Corp.	635	660
13.75% Senior Notes due 2019—Holdings (d)	100	150
Total debt	2,908	2,994
Less: current portion	113	13
Total long-term debt	$2,795	$ 2,981

(a) Reflects $150 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $5 million at both June 30, 2016 and September 30, 2015. There were no loans outstanding under the Revolving Credit Facility at June 30, 2016 or September 30, 2015.

(b) Principal amount of $1.277 billion and $1.287 billion less unamortized discount of $4 million and $5 million at June 30, 2016 and September 30, 2015, respectively. Of this amount, $13 million, representing the scheduled amortization of the Senior Term Loan Facility, was included in the current portion of long-term debt at June 30, 2016 and September 30, 2015.

(c) Face amount of €158 million. Above amounts represent the dollar equivalent of such notes at June 30, 2016 and September 30, 2015.

(d) These notes were redeemed on July 1, 2016. Of this amount, $100 million was included in the current portion of long-term debt at June 30, 2016. Please see "Recent Developments" in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section for further discussion.

Debt Redemptions and Prepayments

On February 16, 2016, Holdings redeemed $50 million of its $150 million outstanding 13.75% Senior Notes due 2019. The Company recorded a loss on extinguishment of debt of approximately $5 million, which represents the premium paid on early redemption and unamortized deferred financing costs.

On July 1, 2016, Holdings redeemed the remaining $100 million of its outstanding 13.75% Senior Notes due 2019. The Company expects to record a loss on extinguishment of debt of approximately $10 million in the fourth quarter of fiscal 2016 as a result of this debt redemption, which represents the premium paid on early redemption and unamortized deferred financing costs. Refer to Note 12, Subsequent Events.

On July 27, 2016, Acquisition Corp. prepaid $295.5 million of its outstanding Senior Term Loan Facility due 2020. The Company expects to record an immaterial loss in the fourth quarter of fiscal 2016 as a result of this prepayment.

Refer to Note 12, Subsequent Events.

Open Market Purchases

On March 11, 2016, Acquisition Corp. purchased, in the open market, approximately $25 million of its $660 million outstanding 6.75% Senior Notes due 2022. The acquired notes were subsequently retired. Following retirement of the acquired notes, approximately $635 million of the 6.75% Senior Notes due 2022 remain outstanding.

Notes Offering

On July 27, 2016, Acquisition Corp. issued $300 million in aggregate principal amount of its 5.00% Senior Secured Notes due 2023 (the “Notes Offering”). Acquisition Corp. used the net proceeds for the prepayment of $295.5 million of its outstanding Senior Term Loan Facility due 2020. Refer to Note 12, Subsequent Events.

Interest Rates

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

The loans under the Senior Term Loan Facility bear interest at Acquisition Corp.'s election at a rate equal to (i) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period ("Term Loan LIBOR"), plus 2.75% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent as its prime rate in effect at its principal office in New York City from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) one-month Term Loan LIBOR, plus 1.00% per annum, plus, in each case, 1.75% per annum. The loans under the Senior Term Loan Facility are subject to a Term Loan LIBOR "floor" of 1.00%. If there is a payment default at any time, then the interest rate applicable to overdue principal and interest will be the rate otherwise applicable to such loan plus 2.0% per annum. Default interest will also be payable on other overdue amounts at a rate of 2.0% per annum above the amount that would apply to an alternative base rate loan.

Amortization and Maturity of Senior Term Loan Facility

The loans under the Senior Term Loan Facility amortize in equal quarterly installments due December, March, June and September in aggregate annual amounts equal to 1.00% of the original principal amount of the amended Senior Term Loan Facility, or $13 million per year, with the balance payable on maturity date of the Term Loans. The loans outstanding under the Senior Term Loan Facility mature on July 1, 2020.

Maturity of Revolving Credit Facility

The maturity date of the Revolving Credit Facility is April 1, 2021, provided that in the event that more than $400.0 million aggregate principal amount of term loans under the Senior Term Loan Facility and the Senior Secured Notes due 2021 are outstanding on March 2, 2020, the maturity date shall be April, 1 2020.

Maturities of Senior Notes and Senior Secured Notes

As of June 30, 2016, there are no scheduled maturities of notes until 2019, when $100 million is scheduled to mature. This was redeemed on July 1, 2016. Thereafter, $625 million is scheduled to mature in 2021 and $910 million is scheduled to mature in 2022.

Interest Expense, net

Total interest expense, net, was $43 million and $45 million for the three months ended June 30, 2016 and June 30, 2015, respectively. Total interest expense, net, was $131 million and $136 million for the nine months ended June 30, 2016 and June 30, 2015, respectively. The weighted-average interest rate of the Company's total debt was 5.4% at June 30, 2016 and 5.6% at September 30, 2015 and June 30, 2015.

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6. Commitments and Contingencies

Pricing of Digital Music Downloads

On December 20, 2005 and February 3, 2006, the Attorney General of the State of New York served the Company with requests for information in connection with an industry-wide investigation as to the pricing of digital music downloads. On February 28, 2006, the Antitrust Division of the U.S. Department of Justice served us with a Civil Investigative Demand, also seeking information relating to the pricing of digitally downloaded music. Both investigations were ultimately closed, but subsequent to the announcements of the investigations, more than thirty putative class action lawsuits were filed concerning the pricing of digital music downloads. The lawsuits were consolidated in the Southern District of New York. The consolidated amended complaint, filed on April 13, 2007, alleges conspiracy among record companies to delay the release of their content for digital distribution, inflate their pricing of CDs and fix prices for digital downloads. The complaint seeks unspecified compensatory, statutory and treble damages. On October 9, 2008, the District Court issued an order dismissing the case as to all defendants, including us. However, on January 12, 2010, the Second Circuit vacated the judgment of the District Court and remanded the case for further proceedings and on January 10, 2011, the U.S. Supreme Court denied the defendants' petition for Certiorari.

Upon remand to the District Court, all defendants, including the Company, filed a renewed motion to dismiss challenging, among other things, plaintiffs' state law claims and standing to bring certain claims. The renewed motion was based mainly on arguments made in defendants' original motion to dismiss, but not addressed by the District Court. On July 18, 2011, the District Court granted defendants' motion in part, and denied it in part. Notably, all claims on behalf of the CD-purchaser class were dismissed with prejudice. However, a wide variety of state and federal claims remain for the class of Internet download purchasers. Plaintiffs filed an operative consolidated amended complaint on August 31, 2011. The Company filed its answer to the fourth amended complaint on October 9, 2015. Plaintiffs filed an amended Class Certification brief on October 12, 2015. The Company filed amended answers to the fourth amended complaint on November 3, 2015. A mediation took place on February 22, 2016 but the parties were unable to reach a resolution. 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. Defendants filed their Opposition to Plaintiffs' Motion for Class Certification on June 13, 2016. Plaintiffs' reply brief in support of their motion for Class Certification is due on November 6, 2016.

Other Matters

In addition to the matter discussed above, the Company is involved in various litigation and regulatory proceedings arising in the normal course of business. Where it is determined, in consultation with counsel based on litigation and settlement risks, that a loss is probable and estimable in a given matter, the Company establishes an accrual. In the currently pending proceedings, the amount of accrual is not material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued cannot be made at this time due to various factors typical in contested proceedings, including (1) the results of ongoing discovery; (2) uncertain damage theories and demands; (3) a less than complete factual record; (4) uncertainty concerning legal theories and their resolution by courts or regulators; and (5) the unpredictable nature of the opposing party and its demands. However, the Company cannot predict with certainty the outcome of any litigation or the potential for future litigation. As such, the Company continuously monitors these proceedings as they develop and adjusts any accrual or disclosure as needed. Regardless of the outcome, litigation could have an adverse impact on the Company, including the Company's brand value, because of defense costs, diversion of management resources and other factors and it could have a material effect on the Company's results of operations for a given reporting period.

7. Income Taxes

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

For the three and nine months ended June 30, 2015, the Company recorded an income tax expense of $4 million and $7 million, respectively. The tax expense for the three months and nine months ended June 30, 2015 is higher than the expected tax expense at the statutory tax rate of 35% primarily due to income withholding taxes, foreign losses with no tax benefit and an increase in uncertain tax positions.

The Company has determined that it is reasonably possible that its existing reserve for uncertain tax positions as of June 30, 2016 could decrease by approximately $9 million to $23 million primarily due to various ongoing audits and settlement discussions in various foreign jurisdictions.

8. Derivative Financial Instruments

The Company uses derivative financial instruments, primarily foreign currency forward exchange contracts, for the purpose of managing foreign currency exchange risk by reducing the effects of fluctuations in foreign currency exchange rates.

The Company enters into foreign currency forward exchange contracts primarily to hedge the risk that unremitted or future royalties and license fees owed to its domestic companies for the sale, or anticipated sale, of U.S.-copyrighted products abroad may be adversely affected by changes in foreign currency exchange rates. The Company focuses on managing the level of exposure to the risk of foreign currency exchange rate fluctuations on its major currencies, which include the Euro, British pound sterling, Japanese yen, Canadian dollar, Swedish krona and Australian dollar. The foreign currency forward exchange contracts related to royalties are designated and qualify as cash flow hedges under the criteria prescribed in ASC 815. The Company records these contracts at fair value on its balance sheet and gains or losses on these contracts are deferred in equity (as a component of comprehensive loss). These deferred gains and losses are recognized in income in the period in which the related royalties and license fees being hedged are received and recognized in income. However, to the extent that any of these contracts are not considered to be perfectly effective in offsetting the change in the value of the royalties and license fees being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in the statement of operations.

The Company may at times choose to hedge foreign currency risk associated with financing transactions such as third-party debt and other balance sheet items. The foreign currency forward exchange contracts related to balance sheet items denominated in foreign currency are reviewed on a contract-by-contract basis and are designated accordingly. If these foreign currency forward exchange contracts do not qualify for hedge accounting, then the Company records these contracts at fair value on its balance sheet and the related gains and losses are immediately recognized in the statement of operations where there is an equal and offsetting entry related to the underlying exposure.

The fair value of foreign currency forward exchange contracts is determined by using observable market transactions of spot and forward rates (i.e., Level 2 inputs) which is discussed further in Note 11. Additionally, netting provisions are provided for in existing International Swap and Derivative Association Inc. agreements in situations where the Company executes multiple contracts with the same counterparty. As a result, net assets or liabilities resulting from foreign exchange derivatives subject to these netting agreements are classified within other current assets or other current liabilities in the Company’s consolidated balance sheets.

The Company monitors its positions with, and the credit quality of, the financial institutions that are party to any of its financial transactions.

As of June 30, 2016, the Company had outstanding hedge contracts for the sale of $94 million and the purchase of $50 million of foreign currencies at fixed rates that will be settled by September 2016. As of June 30, 2016, the Company had $1 million of deferred losses in comprehensive loss related to foreign exchange hedging. As of September 30, 2015, the Company had no outstanding hedge contracts and no deferred gains or losses in comprehensive loss related to foreign exchange hedging.

The following is a summary of amounts recorded in the Consolidated Balance Sheet pertaining to the Company's use of foreign currency derivatives at June 30, 2016 and September 30, 2015:

	June 30, 2016 (a)	September 30, 2015 (b)
	(in millions)	
Other current assets	$ —	$ —
Other current liabilities	(2)	—

(a) Includes $3 million and $5 million of foreign exchange derivative contracts in asset and liability positions, respectively.
(b) Includes no foreign exchange derivative contracts in asset and liability positions.

9. Segment Information

As discussed more fully in Note 1, based on the nature of its products and services, the Company classifies its business interests into two fundamental operations: Recorded Music and Music Publishing, which also represent reportable segments of the Company. Information as to each of these operations is set forth below. The Company evaluates performance based on several factors, of which the primary financial measure is operating income (loss) before non-cash depreciation of tangible assets and non-cash amortization of intangible assets ("OIBDA"). The Company has supplemented its analysis of OIBDA results by segment with an analysis of operating income (loss) by segment.

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

Three Months Ended	Recorded Music (in millions)	Music Publishing	Corporate expenses and eliminations	Total
June 30, 2016				
Revenues	$680	$ 134	$ (3)	$811
OIBDA	119	23	(22)	120
Depreciation of property, plant and equipment	(8)	(1)	(3)	(12)
Amortization of intangible assets	(47)	(16)	—	(63)
Operating income (loss)	64	6	(25)	45
June 30, 2015				
Revenues	$592	$ 123	$ (5)	$710
OIBDA	100	20	(20)	100
Depreciation of property, plant and equipment	(10)	(1)	(3)	(14)
Amortization of intangible assets	(47)	(16)	—	(63)
Operating income (loss)	43	3	(23)	23

Nine Months Ended	Recorded Music (in millions)	Music Publishing	Corporate expenses and eliminations	Total
June 30, 2016				
Revenues	$2,038	$ 377	$ (10)	$2,405
OIBDA	364	82	(62)	384
Depreciation of property, plant and equipment	(24)	(4)	(9)	(37)
Amortization of intangible assets	(140)	(48)	—	(188)
Operating income (loss)	200	30	(71)	159
June 30, 2015				
Revenues	$1,870	$ 359	$ (13)	$2,216

OIBDA	302	88	(67)	323
Depreciation of property, plant and equipment	(29)	(4)	(9)	(42)
Amortization of intangible assets	(143)	(48)	—	(191)
Operating income (loss)	130	36	(76)	90

10. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $48 million and $53 million during the three months ended June 30, 2016 and June 30, 2015, respectively. The Company made interest payments of approximately $136 million and $140 million during the nine months ended June 30, 2016 and June 30, 2015, respectively. The Company paid approximately $15 million of income and withholding taxes with no offsetting refunds during the three months ended June 30, 2016 and paid $12 million of income and withholding taxes offset by a refund of $2 million during the three months ended June 30, 2015. The Company paid approximately $28 million of income and withholding taxes with no offsetting refunds during the nine months ended June 30, 2016 and paid $27 million of income and withholding taxes offset by a refund of $11 million during the nine months ended June 30, 2015.

11. Fair Value Measurements

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 June 30, 2016 and September 30, 2015.

	Fair Value Measurements as of June 30, 2016			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Assets:				
Foreign Currency Forward Exchange Contracts (a)	$ —	$ —	$ —	$ —

Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	—	(2)	—	(2)
Other Current Liabilities:				
Contractual Obligations (b)	—	—	—	—
Other Non-Current Liabilities:				
Contractual Obligations (b)	—	—	(3)	(3)
Total	$ —	$ (2)	$ (3)	$ (5)

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	Fair Value Measurements as of September 30, 2015			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Liabilities:				
Contractual Obligations (b)	—	—	(1)	(1)
Other Non-Current Liabilities:				
Contractual Obligations (b)	—	—	—	—
Total	$ —	$ —	$ (1)	$ (1)

(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, 2015	$ (1)
Additions	(3)
Reductions	—
Payments	1
Balance at June 30, 2016	$ (3)

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

Fair Value of Debt

Based on the level of interest rates prevailing at June 30, 2016, the fair value of the Company's debt was $2.940 billion. Based on the level of interest rates prevailing at September 30, 2015, the fair value of the Company's debt was $2.976 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.

12. Subsequent Events

Debt Redemptions and Prepayments

On July 1, 2016, Holdings redeemed the remaining $100 million of its outstanding 13.75% Senior Notes due 2019. The Company expects to record a loss on extinguishment of debt of approximately $10 million in the fourth quarter of fiscal 2016 as a result of this debt redemption, which represents the premium paid on early redemption and unamortized deferred financing costs.

On July 27, 2016, Acquisition Corp. prepaid $295.5 million of its outstanding Senior Term Loan Facility due 2020. The Company expects to record an immaterial loss in the fourth quarter of fiscal 2016 as a result of this prepayment.

Senior Term Loan Credit Agreement Amendment

On July 15, 2016, Warner Music Group received lender consent to an amendment (the “Senior Term Loan Credit Agreement Amendment”) to the credit agreement, dated November 1, 2012 (as amended by the amendment dated as of May 9, 2013, the “Senior Term Loan Credit Agreement”), governing Warner Music Group’s senior secured term loan facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the “Senior Term Loan Facility”) described under “Description of Certain Other Indebtedness—Senior Term Loan Facility.” The Senior Term Loan Credit Agreement Amendment (among other changes) conforms certain baskets governing the ability to incur debt and liens to the equivalent provisions applicable to the notes offered. The effectiveness of such changes to the baskets was subject to certain conditions, which have now been satisfied by the completed issuance and sale of the Notes Offering and the prepayment, pursuant to the prepayment notice dated July 22, 2016, of $295.5 million of the Tranche B Term Loans (as defined in the Senior Term Loan Credit Agreement) with the net proceeds from the sale of the Notes Offering.

New Debt

On July 27, 2016, Acquisition Corp. issued $300 million in aggregate principal amount of its 5.00% Senior Secured Notes due 2023. Acquisition Corp. used the net proceeds for the prepayment of $295.5 million of its outstanding Senior Term Loan Facility due 2020. The following is a description of the Company’s New Senior Secured Notes which are now outstanding following completion of the Notes Offering.

New Senior Secured Notes

On July 27, 2016 (the “Closing Date”), Acquisition Corp. (the “Issuer”), issued and sold $300 million in aggregate principal amount of its 5.00% Senior Secured Notes due 2023 (the “Notes”) under the Indenture, dated as of November 1, 2012 (the “Secured Notes 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 Fifth Supplemental Indenture, dated as of July 27, 2016 (the “Supplemental Indenture” and, together with the Secured Notes Base Indenture, the “New Secured Notes Indenture”), among the Issuer, the guarantors party thereto and the Trustee.

Interest on the Notes will accrue at the rate of 5.00% per annum and will be payable semi-annually in arrears on February 1 and August 1, commencing on February 1, 2017.

Ranking

The Notes are the Issuer’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, including the Existing Secured Notes and the Credit Facilities (each as defined below). 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 the Issuer’s 6.750% Senior Notes due 2022 (the “Existing Unsecured Notes”), the Issuer’s 5.625% Senior Secured Notes due 2022 (the “5.625% Existing Secured Notes”), 6.000% Senior Secured Notes due 2021 (the “6.000% Existing Secured Notes”), the Issuer’s 6.250% Senior Secured Notes due 2021 (the “6.250% Existing Secured Notes” and, together with the 5.625% Existing Secured Notes and the 6.000% Existing Secured Notes, the “Existing Secured Notes”) and indebtedness under the Issuer’s 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”) and the Issuer’s 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 Credit Facility” and, together with the Revolving Credit Facility, the “Credit Facilities”) and any future senior secured credit facility; are effectively senior to the Issuer’s unsecured senior indebtedness, including the 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 the Issuer 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 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 Existing Secured Notes and the Credit Facilities). Each subsidiary guarantee ranks senior in right of payment to all subordinated obligations of the subsidiary guarantor; is effectively senior to the subsidiary guarantor's existing unsecured obligations, including the subsidiary guarantor's guarantee of the Notes, to the extent of the collateral securing such guarantee; ranks equally in right of payment with all of the subsidiary guarantor's existing and future senior obligations, including the subsidiary guarantor's guarantee of the Credit Facilities and any future senior secured credit facility, the Existing Secured Notes and the Existing Unsecured Notes; and is structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any non-guarantor subsidiary of the subsidiary guarantor (other than indebtedness and liabilities owed to the Issuer or one of its subsidiary guarantors). Any subsidiary guarantee of the Notes may be released in certain circumstances.

Optional Redemption

At any time prior to August 1, 2019, the Issuer may on any one or more occasions redeem up to 40% of the aggregate principal amount of the Notes (including the aggregate principal amount of any additional securities constituting Notes) issued under the New Secured Notes Indenture, at its option, at a redemption price equal to 105% of the principal amount of the Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of 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 the Issuer or any contribution to the Issuer's common equity capital made with the net cash proceeds of one or more equity offerings by the Issuer's direct or indirect parent; provided that:

(1) at least 50% of the aggregate principal amount of the Notes originally issued under the New Secured Notes Indenture (including the aggregate principal amount of any additional securities constituting Notes issued under the New Secured Notes Indenture) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 180 days of the date of, and may be conditioned upon, the closing of such equity offering.

The Notes may be redeemed, in whole or in part, at any time prior to August 1, 2019, at the option of the Issuer, at a redemption price equal to 100% of the principal amount of the 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 August 1, 2019, the Issuer may redeem all or a part of the 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 Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on August 1 of the years indicated below:

Year	Percentage	
2019	102.500	%
2020	101.250	%
2021 and thereafter	100.000	%

In addition, during any 12-month period prior to August 1, 2019, the Issuer will be entitled to redeem up to 10% of the original aggregate principal amount of the Notes (including the principal amount of any additional securities of the same series) at a redemption price equal to 103.000% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Change of Control

Upon the occurrence of a change of control, which is defined in the Secured Notes Base Indenture, each holder of the Notes has the right to require the Issuer 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 New Secured Notes Indenture contains covenants limiting, among other things, the Issuer's ability and the ability of most of its subsidiaries to: incur additional indebtedness or issue certain preferred shares; pay dividends on or make distributions in respect of its capital stock or make investments or other restricted payments; create restrictions on the ability of its restricted subsidiaries to pay dividends to it or make certain other intercompany transfers; sell certain assets; create liens; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; and enter into certain transactions with its affiliates.

Events of Default

The New Secured Notes Indenture also provides for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on New Secured Notes to become or to be declared due and payable.

WARNER MUSIC GROUP CORP.