Warner Music Group Corp.
Form 10-K
December 11, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended September 30, 2014

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

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	10019

New York, NY
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (212) 275-2000

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes x No ¨

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 website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K. x

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 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 December 11, 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. BUSINESS
FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K 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. These statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate, management’s beliefs and assumptions. Words such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “believe,” or “continue” or the negative thereof or variations of s words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. We disclaim any duty to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. See “Management’s Discussion and Analysis of Financial Condition and Results of Operations—‘Safe Harbor’ Statement Under Private Securities Litigation Reform Act of 1995.”

Introduction

Warner Music Group Corp. (the “Company”) was formed on November 21, 2003. We are 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 the 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 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. All of the Company’s common stock is owned by affiliates of Access Industries, Inc.

PLG Acquisition

On July 1, 2013, the Company completed its acquisition (the “PLG Acquisition”) of Parlophone Label Group (“PLG”). See “Company History” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for a further discussion of the PLG Acquisition.

Our Company

We are one of the world’s major music-based content companies. Our company is composed of two businesses: Recorded Music and Music Publishing. We believe we are the world’s third-largest recorded music company and also the world’s third-largest music publishing company. We are a global company, generating over half of our revenues in more than 50 countries outside of the United States. We generated revenues of $3.027 billion during the fiscal year ended September 30, 2014.

Our Recorded Music business produces revenue primarily through the marketing, sale and licensing of recorded music in various physical (such as CDs, LPs and DVDs) and digital (such as downloads and streaming) formats. We have one of the world's largest and most diverse recorded music catalogs, including 30 of the top 100 best-selling albums of all time in the U.S. Our Recorded Music business also benefits from additional revenue streams associated with artists, including merchandising, fan clubs, sponsorships, concert promotions and artist management, among other areas. We often refer to these rights as "artist services and expanded-rights" and to the recording agreements which provide us with participations in such rights as "expanded-rights deals" or "360° deals." Prior to intersegment eliminations, our Recorded Music business generated revenues of $2.526 billion during the fiscal year ended September 30, 2014.

Our Music Publishing business owns and acquires rights to musical compositions, exploits and markets these compositions and receives royalties or fees for their use. We publish music across a broad range of musical styles and hold rights in over one million copyrights from over 65,000 songwriters and composers. Prior to intersegment eliminations, our Music Publishing business generated revenues of $517 million during the fiscal year ended September 30, 2014.

Company History

Our history dates back to 1929, when Jack Warner, president of Warner Bros. Pictures, founded Music Publishers Holding Company ("MPHC") to acquire music copyrights as a means of providing inexpensive music for films. Encouraged by the success of MPHC, Warner Bros. extended its presence in the music industry with the founding of Warner Bros. Records in 1958 as a means of distributing movie soundtracks and further utilizing actors' contracts. For over 50 years, Warner Bros. Records has led the industry both creatively and financially with the discovery of many of the world's biggest recording artists. Warner Bros. Records acquired Frank Sinatra's Reprise Records in 1963. Our Atlantic Records label was launched in 1947 by Ahmet Ertegun and Herb Abramson as a small New York-based label focused on jazz and R&B and Elektra Records was founded in 1950 by Jac Holzman as a folk music label. Atlantic Records and Elektra Records were consolidated in 2004 to form the Atlantic Records Group. Since 1970, our international Recorded Music business has been responsible for the sale and marketing of our U.S. recording artists abroad as well as the discovery and development of international recording artists.

Chappell & Intersong Music Group, including Chappell & Co., a company whose history dates back to 1811, was acquired in 1987, expanding our Music Publishing business. We continue to diversify our presence through acquisitions and joint ventures with various labels, such as the acquisition of a majority interest in Word Entertainment ("Word") in 2002, our acquisition of Ryko in 2006, our acquisition of a majority interest in Roadrunner Music Group B.V. ("Roadrunner") in 2007 (we also acquired the remaining interest in Roadrunner in 2010) and the acquisition of music publishing catalogs and businesses, such as the Non-Stop Music production music catalog in 2007 and Southside Independent Music Publishing in 2011.

On July 20, 2011, we completed the Merger with an affiliate of Access pursuant to which Access became the beneficial owner of 100% of our equity and our controlling shareholder.

On July 1, 2013, we completed the acquisition of PLG from Universal Music Group. PLG included 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 was 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 included 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 Alborán, Pink Floyd, Radiohead, Roxette, Tina Turner and Tinie Tempah, as well as many developing and up-and-coming artists. PLG's EMI Classics and Virgin Classics brand names were not included with the PLG Acquisition. WMG has rebranded these businesses, respectively, as Warner Classics and Erato.

Warner Music Group is today home to a collection of record labels, including Asylum, Atlantic, Big Beat, East West, Elektra, Erato, Fueled by Ramen, Nonesuch, Parlophone, Reprise, Rhino, Roadrunner, Rykodisc, Sire, Warner Bros., Warner Classics, Warner Music Nashville and Word, as well as Warner/Chappell Music, one of the world's leading music publishers.

Our Business Strengths

We believe the following competitive strengths will enable us to grow our revenue and increase our margins and cash flow and to continue to generate recurring revenue through our diverse base of Recorded Music and Music Publishing assets:

Evergreen Catalog of Recorded Music and Music Publishing Content and Vibrant Roster of Recording Artists and Songwriters. We believe the depth and quality of our Recorded Music and Music Publishing catalogs stand out, with a collection of owned and controlled evergreen recordings and songs that generate steady cash flows. We believe these assets demonstrate our historical success in developing talent and will help to attract future talent in order to enable our continued success. We have been able to consistently attract, develop and retain successful recording artists and songwriters. Our talented artist and repertoire ("A&R") teams are focused on finding and nurturing future successful recording artists and songwriters, as evidenced by our roster of recording artists and songwriters and our recent successes in our Recorded Music and Music Publishing businesses. With the acquisition of PLG, we have added a stable Recorded Music catalog with an attractive roster with strong new release potential. We believe our relative size, the strength and experience of our management team, our ability to respond to industry and consumer trends and challenges, our diverse array of genres, our large catalog of hit recordings and songs and our A&R skills will help us continue to generate steady cash flows.

Highly Diversified Revenue Base. Our revenue base is derived largely from recurring sources such as our Recorded Music and Music Publishing catalogs and new recordings and songs from our roster of recording artists and songwriters. In any given year, only a small percentage of our total revenue depends on recording artists and songwriters without an established track record and our revenue base does not depend on any single recording artist, songwriter, recording or song. We have built a large and diverse catalog of recordings and songs that covers a wide breadth of musical styles, including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, alternative, folk, blues, gospel and other Christian music. We are a significant player in each of our major geographic regions. In addition, our acquisition of PLG has increased our capacity in local repertoire in Europe. Continuing to enter into additional expanded-rights deals will further diversify the revenue base of our Recorded Music business.

Flexible Cost Structure with Low Capital Expenditure Requirements. We have a highly variable cost structure, with substantial discretionary spending and minimal capital requirements beyond improving our IT infrastructure. We have contractual flexibility with regard to the timing and amounts of advances paid to recording artists and songwriters as well as discretion regarding future investment in new recording artists and songwriters, which allows us to respond to changing industry conditions. Our significant discretion with regard to the timing and expenditure of variable costs provides us with considerable flexibility in managing our expenses. In addition, our capital expenditure maintenance requirements are predictable. Recently we have made investments to improve our systems and technology platform to enable us to be more agile, innovative and artist-friendly. In order to improve operating efficiency, in 2013 we began a long-term capital expenditure plan to upgrade our IT systems. We expect to continue to make investments to upgrade our IT systems in fiscal 2015 as a result of this plan. In fiscal year 2014, we also incurred expenses related to the relocation of our corporate headquarters. We also continue to focus on cost control by seeking sensible opportunities to convert fixed costs to variable costs, to enhance our effectiveness, flexibility, structure and performance by reducing and realigning long-term costs and continuing to implement changes to better align our workforce with the changing nature of the music industry by continuing to shift resources from our physical sales channels to efforts focused on digital distribution and emerging technologies and other new revenue streams.

Continued Transition to Higher-Margin Digital Platforms. We derive revenue from different digital business models and products, including digital downloads of single tracks and albums and digital streaming of both audio and video content. We have established ourselves as a leader in the music industry’s transition to the digital era by expanding our distribution channels through strong partnerships and developing innovative products and services to further leverage our content and rights. For the fiscal year ended September 30, 2014, digital revenue represented approximately 40% of our total revenue versus 38% for the fiscal year ended September 30, 2013.

We have integrated the development of innovative digital products and strategies throughout our business and have established a culture of product innovation across the Company. Through our digital initiatives we have established strong relationships with our customers and have become a leader in the expanding worldwide digital music business. Due to the absence of certain costs associated with physical products, such as manufacturing, distribution, inventory and returns, we continue to experience higher margins on our digital product offerings than our physical product offerings.

Diversified, Growing and Higher-Margin Revenue Streams through Expanded-Rights Deals. We have been expanding our relationships with recording artists to partner with them in other areas of their careers by entering into expanded-rights or 360° deals. Under these arrangements, we participate in sources of revenue outside of the recording artist’s record sales, such as live performances, merchandising, fan clubs, artist management and sponsorships. We believe we also have improved sponsorship and branding opportunities through the PLG Acquisition. These opportunities have allowed us, and we believe will continue to allow us, to further diversify our revenue base. The vast majority of these agreements are signed with recording artists in the early stages of their careers. As a result, we expect the revenue streams derived from these deals to increase in value over time as we help recording artists on our active global Recorded Music roster gain prominence.

Strong Management Team and Strategic Investor. Our management team has continued to successfully implement our business strategy, including delivering strong results in our digital business and continuing to diversify our revenue mix. At the same time, management has remained vigilant in managing costs and maintaining financial flexibility. During fiscal 2013, our management team successfully completed the PLG Acquisition and related financing. In fiscal 2014, management completed a refinancing of our debt, lowering interest expenses. In addition, since our acquisition by Access Industries in July 2011, we have benefited from our partnership with Access, which has provided us with strategic direction and planning support to help us manage the ongoing transition in the recorded music industry.

Our Strategy

We expect to increase revenues and cash flow through the following business strategies:

Attract, Develop and Retain Established and Emerging Recording Artists and Songwriters. A critical element of our strategy is to find, develop and retain recording artists and songwriters who achieve long-term success, and we expect to enhance the value of our assets by continuing to attract and develop new recording artists and songwriters with staying power and market potential. Our A&R teams seek to sign talented recording artists who will generate a meaningful level of revenues and increase the enduring value of our catalog on an ongoing basis. We also work to identify promising songwriters who write musical compositions that will augment the lasting value and stability of our music publishing catalog. We regularly evaluate our recording artist and songwriter rosters to ensure that we remain focused on developing the most promising and profitable talent and are committed to maintaining financial discipline in evaluating agreements with artists. We will also continue to evaluate opportunities to add to our catalog or acquire or make investments in companies engaged in businesses that are similar or complementary to ours on a selective basis.

Maximize the Value of Our Music Assets. Our relationships with recording artists and songwriters, along with our recorded music and music publishing catalogs are our most valuable assets. We intend to continue to exploit the value of these assets through a variety of distribution channels, formats and products to generate significant cash flow from our music-based content. We believe that the ability to monetize our music-based content will improve over time as we drive users and engagement across current and emerging distribution channels. We will seek to exploit the potential of previously under-monetized content in new channels, formats and product offerings. We will also continue to work with our partners to explore creative approaches and develop new deal structures and product offerings to take advantage of new distribution channels.

Capitalize on Digital Distribution. The growth of digital formats will continue to produce new means for the distribution, exploitation and monetization of the assets of our Recorded Music and Music Publishing businesses. We believe that the continued development of legitimate online and mobile channels for the consumption of music-based content and increasing access to digital music services present significant promise and opportunity for the music industry. Legitimate digital music services offer ease of use, discovery, quality, portability and seamlessness relative to illegal alternatives. Quarterly surveys conducted by NPD over the past four years show that legitimate digital music offerings are driving additional uptake from consumers. The size of the digital music consumer market—defined as consumers who bought digital music downloads and/or streamed music in the past three months—grew from a projected 87.5 million consumers in calendar Q2 2010 to a projected 103.0 million consumers in calendar Q2 2013, up 18% over the period. Separate research conducted by NPD in December 2013 reveals that key drivers of such uptake among U.S. Internet consumers age 13+ include ease of finding music through digital stores and services, download purchases made for portable/mobile devices, receipt of digital music gift cards, a greater level of comfort with buying music digitally and ease-of-use.

We intend to continue to extend our global reach by executing deals with new partners and developing optimal business models that will enable us to monetize our content across various platforms, services and devices. In the United States, in the twelve months ending on September 30, 2014, our Recorded Music digital revenue exceeded physical revenue. Research conducted by NPD in January 2014 shows that roughly a quarter of U.S. Internet consumers age 13+ used Pandora in the last quarter of 2013 and an equal percentage used YouTube to watch or listen to music videos; nearly 40% listened to music via dedicated on-demand audio streaming services like Spotify or Rhapsody in the period covered by the survey. In addition, with the number of total smartphones in use around the world expected to reach 3.4 billion by 2018, we expect that mobile will continue to represent significant opportunity for music-based content. Figures from comScore's July 2014 MobiLens data release show that the uptake of music among users of such phones is significant: according to the data, approximately half of existing smartphone users in the U.S. and 39% of their counterparts across five major European territories (the U.K., Germany, France, Spain and Italy) listened to music downloaded and stored or streamed on their handsets from services such as iTunes, Pandora, iHeartRadio, Deezer and Spotify, among other sources, during the month. We believe that the demand for music-related products, services and applications that are optimized for smartphones and tablets will continue to grow with the further development of these platforms.

Enter into Expanded-Rights Deals to Form Closer Relationships with Recording Artists and Capitalize on Revenues From Other Areas of the Music Industry. Since the end of calendar 2005, we have implemented a strategy of entering into expanded-rights deals with new recording artists. This strategy has allowed us to create closer relationships with our recording artists through our provision of additional artist services and greater financial alignment. Expanded-rights deals allow us to diversify our Recorded Music revenue streams and capitalize on ancillary revenues, from merchandising, fan clubs, sponsorship, concert promotion, and artist management, among other areas. As part of our strategy, we have built or acquired significant in-house resources to provide additional services to our recording artists and other recording artists. We believe artist services and expanded-rights deals will contribute to Recorded Music revenue growth over time.

Focus on Continued Management of Our Cost Structure. We plan to continue to maintain a disciplined approach to cost management in our business and to pursue additional cost savings with a focus on aligning our cost structure with our strategy and optimizing the implementation of our strategy. As part of this focus, we will continue to monitor industry conditions to ensure that our business remains aligned with industry trends. We also plan to continue to aggressively shift resources from our physical sales channels to efforts focused on digital distribution and other new revenue streams. As digital revenue makes up a greater portion of total revenue, we plan to manage our cost structure accordingly. In addition, we will continue to look for opportunities to convert fixed costs to variable costs through realigning or outsourcing certain functions or leveraging more effective IT systems where these initiatives provide additional cost savings. We are constantly monitoring our costs and seeking additional cost savings. As of the completion of our Merger on July 20, 2011, we targeted cost savings over the next nine fiscal quarters of $50 million to $65 million based on identified cost-savings initiatives and opportunities, including targeted savings expected to be realized as a result of shifting from a public to a private company, reduced expenses related to finance, legal and IT functions and reduced expenses related to certain planned corporate restructuring initiatives. The targeted cost-savings program was completed as of June 30, 2013, one quarter early, achieving savings at the high end of the estimated range. As discussed further in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” PLG had meaningful operation overlap with our existing recorded music business and, as a result, we have taken actions to achieve cost savings in conjunction with the PLG Acquisition.

Contain Digital Piracy. Containing piracy is a major focus of the music industry and we, along with the rest of the industry, continue to take multiple measures through the development of new business models, technological innovation, litigation, education and the promotion of legislation and voluntary agreements to combat piracy, including filing civil lawsuits, participating in education programs, lobbying for tougher anti-piracy legislation and other initiatives to preserve the value of music copyrights. As music consumption shifts to mobile platforms, we are seeing applications and services that offer unauthorized music doing the same. As an industry, we are increasing the resources we dedicate to handling mobile piracy. We expect that the effectiveness of technological measures to deter piracy will continue to improve including the ability to automate large-scale takedowns of infringing links, the identification of major brands advertising on rogue sites, sending notices via ISPs to repeat infringers and website/domain blocking and takedowns of infringing mobile applications. We believe these actions and technologies, in addition to the expansive growth of legitimate online and mobile music offerings, will help to limit the revenue lost to digital piracy. Research conducted by IFPI (defined below) shows that global piracy is on the decline, with the number of fixed-line pirate users falling from over 30% of the global internet population in July 2012 to 26% of the internet population based on the most recent estimates published in the IFPI Digital Music Report 2014.

Recorded Music (83%, 83% and 81% of consolidated revenues, before intersegment eliminations, for fiscal years ended September 30, 2014, 2013 and 2012)

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; Alternative Distribution Alliance (“ADA”), which distributes the products of independent labels to retail and wholesale distributors; various distribution centers and ventures operated internationally; and an 80% interest in Word, which specializes in the distribution of music products in the Christian retail marketplace.

In addition to our Recorded Music products being sold in physical retail outlets, our Recorded Music products are also sold in physical form to online physical retailers such as Amazon.com, barnesandnoble.com and bestbuy.com and in digital form to digital download services such as Apple's iTunes and Google Play, and are otherwise used by digital streaming services such as Beats Music, Deezer, Rhapsody, Spotify and YouTube, 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 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.

A&R

We have a decades-long history of identifying and contracting with recording artists who become commercially successful. Our ability to select artists who are likely to be successful is a key element of our Recorded Music business strategy and spans all music genres and all major geographies and includes artists who achieve national, regional and international success. We believe that this success is directly attributable to our experienced global team of A&R executives, to the longstanding reputation and relationships that we have developed in the artistic community and to our effective management of this vital business function.

In the U.S., our major record labels identify potentially successful recording artists, sign them to recording agreements, collaborate with them to develop recordings of their work and market and sell these finished recordings to retail stores and legitimate digital channels. Increasingly, we are also expanding our participation in image and brand rights associated with artists, including merchandising, sponsorships, touring and artist management. Our labels scout and sign talent across all major music genres, including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, alternative, folk, blues, gospel and other Christian music. Internationally, we market and sell U.S. and local repertoire through our network of affiliates and licensees in more than 50 countries. With a roster of local artists performing in various local languages throughout the world, we have an ongoing commitment to developing local talent aimed at achieving national, regional or international success.

Many of our recording artists continue to appeal to audiences long after we cease to release their new recordings. We have an efficient process for sustaining sales across our catalog releases. Relative to our new releases, we spend comparatively small amounts on marketing for our catalog.

We maximize the value of our catalog of recorded music through our Rhino business unit and through activities of each of our record labels. We use our catalog as a source of material for re-releases, compilations, box sets and special package releases, which provide consumers with incremental exposure to familiar songs and artists.

Representative Worldwide Recorded Music Artists

3Oh!3	Death Cab for Cutie	Katherine Jenkins	Nickelback	Skillet
A-ha	Deftones	Jethro Tull	Stevie Nicks	Skrillex
Air	Jason Derulo	Johnny Hallyday	Nico and Vinz	Slipknot
Airbourne	Disturbed	Julien Clerc	Notorious B.I.G.	The Smiths
Jean-Louis Aubert	Donkeyboy	k.d. lang	Paolo Nutini	Spandau Ballet
Avenged Sevenfold	The Doors	Kid Rock	Opeth	Regina Spektor
B.o.B	Dream Theater	Killswitch Engage	Pablo Alborán	Staind
Frankie Ballard	Duran Duran	Kobukuro	Panic! At the Disco	Rod Stewart
The Baseballs	Eagles	Korn	Pantera	The Streets
Jeff Beck	Brett Eldrege	Kraftwerk	Paramore	Alain Souchon
Bee Gees	Eliza Doolittle	Jana Kramer	Laura Pausini	Stone Sour
Biffy Clyro	Missy Elliott	Larry the Cable Guy	Pendulum	Stone Temple Pilots
Big Smo	The Enemy	Hugh Laurie	Christina Perri	Superfly
Billy Talent	Enya	Led Zeppelin	Peter Fox	Cole Swindell
Birdy	Estelle	Ligabue	Tom Petty	Mariya Takeuchi
The Black Keys	Jimmy Fallon	Lily Allen	Pink Floyd	Serj Tankian
Black Sabbath	Flaming Lips	Linkin Park	Plan B	Tegan and Sara
Blur	Fleetwood Mac	Lupé Fiasco	Plies	Tina Turner
Miguel Bosé	Flo Rida	Lynyrd Skynyrd	Primal Scream	Tinie Tempah
Michelle Branch	Aretha Franklin	M. Pokora	Prince	Theory of a Deadman
Bruno Mars	Foreigner	Machine Head	R.E.M.	Rob Thomas
Michael Bublé	fun.	Christophe Maé	Radiohead	Rush
Camille	Genesis	Magic System	The Ramones	T.I.
The Cars	Gloriana	Maná	Randy Travis	Theophilus London
Cee Lo Green	Gnarls Barkley	Mastodon	The Ready Set	Trans-Siberian Orchestra
Tracy Chapman	Gojira	matchbox twenty	Red Hot Chili Peppers	Trey Songz
Ray Charles	Goo Goo Dolls	MC Solaar	Damien Rice	Jolin Tsai
Charlie XCX	Josh Groban	Megadeath	Kenny Rogers	Twisted Sister
Cher	Grateful Dead	Bette Midler	Roxette	Uncle Kracker
Chicago	Green Day	Luis Miguel	Rudimental	Van Halen
Eric Clapton	Gorillaz	Kylie Minogue	Rumer	Paul Wall
Cobra Starship	Gucci Mane	Janelle Monáe	Todd Rundgren	Westernhagen
Coldplay	David Guetta	The Monkees	Alejandro Sanz	Wilco
Phil Collins	Gym Class Heroes	Ashley Monroe	Jill Scott	Wiz Khalifa
Alice Cooper	Halestorm	Jason Mraz	Seal	The Wombats
The Corrs	Hard-Fi	Murderdolls	Sean Paul	Neil Young
Crosby, Stills & Nash	Emmylou Harris	Muse	Seeed	Young the Giant
Sheryl Crow	Hunter Hayes	Musiq Soulchild	Ed Sheeran	Youssou N'Dour
Daft Punk	Faith Hill	My Chemical Romance	Blake Shelton	ZZ Top
Dan + Shay	Iron Maiden	Nek	Shinedown	
Danger Mouse	Jaheim	New Order	Sigur Rós	
David Bowie	James Blunt	Never Shout Never	Simple Plan	

Recording Artists' Contracts

Our artists' contracts define the commercial relationship between our recording artists and our record labels. We negotiate recording agreements with artists that define our rights to use the artists' copyrighted recordings. In accordance with the terms of the contract, the artists receive royalties based on sales and other forms of exploitation of the artists' recorded works. We customarily provide up-front payments to artists called advances, which are recoupable by us from future royalties otherwise payable to artists. We also typically pay costs associated with the recording and production of albums, which in certain countries are treated as advances recoupable by us from future royalties. Our typical contract for a new artist covers a single initial album and provides us with a series of options to acquire subsequent albums from the artist. Royalty rates and advances are often increased for subsequent albums for which we have exercised our options. Many of our contracts contain a commitment from the record label to fund video production costs, at least a portion of which in certain countries is treated as advances recoupable by us from future royalties.

Our established artists' contracts generally provide for greater advances and higher royalty rates. Typically, established artists' contracts entitle us to fewer albums, and, of those, fewer are optional albums. In contrast to new artists' contracts, which typically give us ownership in the artist's work for the full term of copyright, some established artists' contracts provide us with an exclusive license for some fixed period of time. It is not unusual for us to renegotiate contract terms with a successful artist during the term of their existing agreement, sometimes in return for an increase in the number of albums that the artist is required to deliver.

While the duration of the contract may vary, our contracts typically grant us ownership for the duration of copyright. See "Intellectual Property-Copyrights." U.S. copyright law permits authors or their estates to terminate an assignment or license of copyright (for the U.S. only) after a set period of time in certain circumstances. See "Risk Factors—We face a potential loss of catalog to the extent that recording artists have a right to recapture rights in their recordings under the U.S. Copyright Act."

We are also continuing to transition to other forms of business models with recording artists to adapt to changing industry conditions. The vast majority of the recording agreements we currently enter into are expanded-rights deals, in which we share in the touring, merchandising, sponsorship/endorsement, fan club or other non-traditional music revenues associated with those artists.

Marketing and Promotion

Our approach to marketing and promoting our artists and their recordings is comprehensive. Our goal is to maximize the likelihood of success for new releases as well as to stimulate the success of catalog releases. We seek to maximize the value of each release, and to help our artists develop an image that maximizes appeal to consumers.

We work to raise the profile of our artists, through an integrated marketing approach that covers all aspects of their interactions with music consumers. These activities include helping the artist develop creatively in each album release, setting strategic release dates and choosing radio singles, creating concepts for videos that are complementary to the artists' work and coordinating the promotion of albums to radio and television outlets. We also continue to experiment with ways to promote our artists through digital channels with initiatives such as windowing of content and creating product bundles by combining our existing album assets with other assets, such as bonus tracks and music videos. Digital distribution channels create greater marketing flexibility that can be more cost effective. For example, direct marketing is possible through access to consumers via websites and pre-release activity can be customized. When possible, we seek to add an additional personal component to our promotional efforts by facilitating television and radio coverage or live appearances for our key artists. Our corporate, label and artist websites provide additional marketing venues for our artists.

Before and after the release of an album, we coordinate and execute a marketing plan that addresses specific digital and physical retail strategies to promote the album. Aspects of these promotions include in-store appearances, advertising, displays and placement in album listening stations. These activities are overseen by our label marketing staffs to ensure that maximum visibility is achieved for the artist and the release.

Our approach to the marketing and promotion of recorded music is carefully coordinated to create the greatest sales momentum, while maintaining financial discipline. We have significant experience in our marketing and promotion departments, which we believe allows us to achieve an optimal balance between our marketing expenditure and the eventual sales of our artists' recordings. We use a budget-based approach to plan marketing and promotions, and we monitor all expenditures related to each release to ensure compliance with the agreed-upon budget. These planning processes are regularly evaluated based on updated artist retail sales reports and radio airplay data, so that a promotion plan can be quickly adjusted if necessary.

While marketing efforts extend to our catalog, most of the expenditure is directed toward new releases. Rhino specializes in marketing our catalog through compilations and reissues of previously released music and video titles, licensing tracks to third parties for various uses and coordinating film and television soundtrack opportunities with third-party film and television producers and studios.

Manufacturing, Packaging and Physical Distribution

Cinram International Inc. (collectively, with its affiliates and subsidiaries, "Cinram") is currently our primary supplier of manufacturing, packaging and physical distribution services in the U.S., Canada and part of Europe. We believe that the pricing terms of our Cinram agreements reflect market rates. Pursuant to the terms of our agreement with Cinram, we have the option to use third-party vendors for up to a certain percentage of the volume provided to us during the 2010 calendar year by Cinram (and up to a higher percentage upon the occurrence of certain events). We also have arrangements with other suppliers and distributors as part of our manufacturing, packaging and physical distribution network throughout the rest of the world.

Sales

We generate sales from the new releases of current artists and our catalog of recordings. In addition, we actively repackage music from our catalog to form new compilations. Our sales are generated in CD format, as well as through historical formats, such as vinyl albums, and digital formats including downloads and streaming.

Most of our physical sales represent purchases by a wholesale or retail distributor. Our sale and return policies are in accordance with wholesale and retailer requirements, applicable laws and regulations, territory- and customer-specific negotiations, and industry practice. We attempt to minimize the return of unsold product by working with retailers to manage inventory and SKU counts as well as monitoring shipments and sell-through data.

We sell our physical recorded music products through a variety of different retail and wholesale outlets including music specialty stores, general entertainment specialty stores, supermarkets, mass merchants and discounters, independent retailers and other traditional retailers. Although some of our retailers are specialized, many of our customers offer a substantial range of products other than music. The digital sales channel—both online and mobile—has become an increasingly important sales channel. Online sales include sales of traditional physical formats through both the online distribution arms of traditional retailers such as fye.com and walmart.com and traditional online physical retailers such as amazon.com, bestbuy.com and barnesandnoble.com. In addition, there has been a proliferation of legitimate online sites, which sell digital music on a per-album or per-track basis or offer subscription and streaming services. Several carriers also offer their subscribers the ability to download music on mobile devices. We currently partner with a broad range of online and mobile providers, such as Amazon, Apple, Deezer, KKBox, Orange, Rdio, Rhapsody, Spotify, SFR, Telia, Telenor, Vodafone, Virgin Media, YouTube and Google, and are actively seeking to develop and grow our digital business. In digital formats, per-unit costs related directly to physical products such as manufacturing, distribution, inventory and return costs do not apply. While there are some digital-specific variable costs and infrastructure investments needed to produce, market and sell digital products, it is reasonable to expect that we will generally derive a higher contribution margin from digital sales than physical sales.

Our agreements with online and mobile service providers generally last one to three years. We believe that the short-term nature of our contracts enables us to maintain the flexibility that we need given the continuing changes to the digital business models.

We enter into agreements with digital service providers to make our masters available for access in digital formats (e.g., digital downloads, streaming, mobile ringtones, etc.). We then provide digital assets for our masters to digital service providers in accessible form. Our agreements with digital service providers establish our fees for the sale of our product, which vary based on the type of product being sold. We typically receive sales accounting reports from digital service providers on a monthly basis, detailing the sales activity, with payments rendered on a monthly or quarterly basis.

Our business has historically been seasonal. In the recorded music business, purchases have historically been heavily weighted towards the last three months of the calendar year. However, since the emergence of digital sales, we have noted our business is becoming less seasonal in nature and driven more by the timing of our releases. As digital revenue increases as a percentage of our total revenue, this may continue to affect the overall seasonality of our business. However, seasonality with respect to the sale of music in new formats, such as digital, is still developing.

Music Publishing (17%, 17% and 19% of consolidated revenues, before intersegment eliminations, for fiscal years ended September 30, 2014, 2013 and 2012)

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, 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. Through consistent and tactical talent investment, Warner Chappell has developed a broad array of talent across all genres, resulting in Warner/Chappell being awarded ASCAP's Top Publisher of the Year for each of Pop, Country and Urban, in 2014. 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 Portfolio

Representative Songwriters

Beyoncé	Led Zeppelin	Radiohead
Michelle Branch	Lil Wayne	The Ramones
Bruno Mars	Little Big Town	Red Hot Chili Peppers
Michael Bublé	Madonna	R.E.M.
Eric Clapton	Maná	Damien Rice
Dido	Jay Z	Alejandro Sanz
Dream	Johnny Mercer	Stephen Sondheim
fun.	George Michael	Staind
Kenneth Gamble and Leon Huff	Van Morrison	T.I.
George and Ira Gershwin	Muse	Van Halen
Barry Gibb	Tim Nichols	Kurt Weill
Ashley Gorley	Nickelback	Barry White
Green Day	Paramore	Mike Will
Wayne Hector	Katy Perry	John Williams
Don Henley	Plain White T's	Lucinda Williams
Lady Antebellum	Cole Porter	Rob Zombie

Representative Songs

1950s and Prior	1960s	1970s
As Time Goes By	Build Me Up Buttercup	A Horse With No Name
Dream A Little Dream Of Me	Everyday People	Ain't No Stopping Us Now
Frosty The Snowman	For What It's Worth	Hot Stuff
Happy Birthday To You	I Only Want To Be With You	Killing Me Softly
Jingle Bell Rock	Save The Last Dance For Me	Layla
Misty	This Magic Moment	Listen To The Music
Night And Day	Viva Las Vegas	Moondance
Summertime	Walk On By	Stairway To Heaven
When I Fall In Love	When A Man Loves A Woman	Star Wars Theme
Winter Wonderland	Whole Lotta Love	Staying Alive

1980s	1990s	2000s	2010 and after
Celebration	Amazed	American Idiot	Black & Yellow
Endless Love	Believe	Complicated	Firework
Eye Of The Tiger	Creep	Crazy	Grenade
Flashdance	Gonna Make You Sweat	Crazy In Love	Just The Way You Are

Indiana Jones Theme	Livin' La Vida Loca	Gotta Be Somebody	Last Friday Night (T.G.I.F.)
Jump	Losing My Religion	Hey There Delilah	Lighters
Like A Prayer	Macarena	Home	No Hands
Morning Train	Smooth	I Kissed A Girl	Rocketeer
Slow Hand	Sunny Came Home	Rockstar	Somebody That I Used To Know
The Wind Beneath My Wings	This Kiss	White Flag	We Are Young

Music Publishing Royalties

Warner/Chappell, as a copyright owner and/or administrator of copyrighted musical compositions, is entitled to receive royalties for the exploitation of musical compositions. We continually add new musical compositions to our catalog, and seek to acquire rights in songs that will generate substantial revenue over long periods of time.

Music publishers generally receive royalties pursuant to mechanical, public performance, synchronization and other licenses. In the U.S., music publishers collect and administer mechanical royalties, and statutory rates are established by the U.S. Copyright Act of 1976, as amended, for the royalty rates applicable to musical compositions for sales of recordings embodying those musical compositions. In the U.S., public performance royalties are typically administered and collected by performing rights organizations and in most countries outside the U.S., collection, administration and allocation of both mechanical and performance income are undertaken and regulated by governmental or quasi-governmental authorities. Throughout the world, each synchronization license is generally subject to negotiation with a prospective licensee and, by contract, music publishers pay a contractually required percentage of synchronization income to the songwriters or their heirs and to any co-publishers.

Warner/Chappell acquires copyrights or portions of copyrights and/or administration rights from songwriters or other third-party holders of rights in compositions. Typically, in either case, the grantor of rights retains a right to receive a percentage of revenues collected by Warner/Chappell. As an owner and/or administrator of compositions, we promote the use of those compositions by others. For example, we encourage recording artists to record and include our songs on their albums, offer opportunities to include our compositions in filmed entertainment, advertisements and digital media and advocate for the use of our compositions in live stage productions. Examples of music uses that generate publishing revenues include:

Performance: performance of the song to the general public

- Broadcast of music on television, radio, cable and satellite
- Live performance at a concert or other venue (e.g., arena concerts, nightclubs)
- Broadcast of music at sporting events, restaurants or bars
- Performance of music in staged theatrical productions

Mechanical: sale of recorded music in various physical formats

- Physical recordings such as CDs, LPs, and DVDs

Synchronization: use of the song in combination with visual images

- Films or television programs
- Television commercials
- Videogames
- Merchandising, toys or novelty items

Digital:

- Digital download services
- Subscription services
- Online and mobile streaming

Other:

- Licensing of copyrights for use in printed sheet music

Composers' and Lyricists' Contracts

Warner/Chappell derives its rights through contracts with composers and lyricists (songwriters) or their heirs, and with third-party music publishers. In some instances, those contracts grant either 100% or some lesser percentage of copyright ownership in musical compositions and/or administration rights. In other instances, those contracts only convey to Warner/Chappell rights to administer musical compositions for a period of time without conveying a copyright ownership interest. Our contracts grant us exclusive exploitation rights in the territories concerned excepting any pre-existing arrangements. Many of our contracts grant us rights on a worldwide basis. Warner/Chappell customarily possesses administration rights for every musical composition created by the writer or composer during the duration of the contract.

While the duration of the contract may vary, many of our contracts grant us ownership and/or administration rights for the duration of copyright. See “Intellectual Property-Copyrights.” U.S. copyright law permits authors or their estates to terminate an assignment or license of copyright (for the U.S. only) after a set period of time. See “Risk Factors—We face a potential loss of catalog to the extent that recording artists have a right to recapture rights in their recordings under the U.S. Copyright Act.”

Competition

In both Recorded Music and Music Publishing we compete based on price (to retailers in recorded music and to various end users in music publishing), on marketing and promotion (including both how we allocate our marketing and promotion resources as well as how much we spend on a dollar basis) and on artist signings. We believe we currently compete favorably in these areas.

Our Recorded Music business is also dependent on technological development, including access to, selection and viability of new technologies, and is subject to potential pressure from competitors as a result of their technological developments. In recent years, due to the growth in piracy, we have been forced to compete with illegal channels such as unauthorized, online, peer-to-peer filesharing and CD-R activity. See “Industry Overview—Recorded Music—Piracy.” Additionally, we compete, to a lesser extent, for disposable consumer income with alternative forms of entertainment, content and leisure activities, such as cable and satellite television, pre-recorded films on DVD, the Internet, computers, mobile applications and videogames.

The recorded music industry is highly competitive based on consumer preferences, and is rapidly changing. At its core, the recorded music business relies on the exploitation of artistic talent. As such, competitive strength is predicated upon the ability to continually develop and market new artists whose work gains commercial acceptance. According to Music and Copyright, in 2013, the three largest major record companies (following the close of Universal’s acquisition of EMI’s recorded music division in September 2012 and our acquisition of PLG in July 2013) were Universal, Sony, and us, which collectively accounted for 75% of worldwide recorded music sales. There are many mid-sized and smaller players in the industry that accounted for the remaining 25%, including independent music companies. Universal was the market leader with a 37% worldwide market share in 2013 after absorbing the bulk of the recorded music assets of the former EMI in late 2012, followed by Sony with a 22% share. We held a 16% share of worldwide recorded music sales globally in 2013.

The music publishing business is also highly competitive. The top three music publishers (following the close of the sale of EMI’s music publishing division to a consortium including Sony Corporation of America) collectively accounted for 65% of the market. Based on Music & Copyright’s most recent estimates published in May 2014, Sony/ATV was the market leader in music publishing in 2013 with a 29% share (reflecting its administration of the EMI music publishing assets). Universal, having acquired BMG Music Publishing Group in 2007, was the second largest music publisher with a 23% share, followed by us (Warner/Chappell) at 13%. Independent music publishers represent the balance of the market, as well as many individual songwriters who publish their own works.

Intellectual Property

Copyrights

Our business, like that of other companies involved in music publishing and recorded music, rests on our ability to maintain rights in musical works and recordings through copyright protection. In the U.S., copyright protection for works created as “works made for hire” (e.g., works of employees or certain specially commissioned works) on or after January 1, 1978 generally lasts for 95 years from first publication or 120 years from creation, whichever expires first. The period of copyright protection for works created on or after January 1, 1978 that are not “works made for hire” lasts for the life of the author plus 70 years. Works created and published or registered in the U.S. prior to January 1, 1978 generally enjoy a total copyright life of 95 years, subject to compliance with certain statutory provisions including notice and renewal. In the U.S., sound recordings created prior to February 15, 1972 are not subject to federal copyright protection but are protected by common law rights or state statutes, where applicable. The term of copyright in the European Union (“E.U.”) for musical compositions in all member states lasts for the life of the author plus 70 years. In the E.U., the term of copyright for sound recordings lasts for 70 years from the date of release in respect of sound recordings that were still in copyright on November 1, 2013 and for 50 years from date of release in respect of sound recordings the copyright in which had expired by that date. The E.U. also recently harmonized the copyright term for joint musical works. In the case of a musical composition with words that is protected by copyright on or after November 1, 2013, E.U. member states are required to calculate the life of the author plus 70 years term from the date of death of the last surviving author of the lyrics and the composer of the musical composition, provided that both contributions were specifically created for the respective song.

We are largely dependent on legislation in each territory in which we operate to protect our rights against unauthorized reproduction, distribution, public performance or rental. In all territories where we operate, our products receive some degree of copyright protection, although the extent of effective protection varies widely. In a number of developing countries, the protection of copyright remains inadequate.

Technological changes have focused attention on the need for new legislation that will adequately protect the rights of producers. We actively lobby in favor of industry efforts to increase copyright protection and support the efforts of organizations such as the Recording Industry Association of America (“RIAA”), International Federation of the Phonographic Industry (“IFPI”) and the World Intellectual Property Organization (“WIPO”).

Trademarks

We consider our trademarks to be valuable assets to our business. As such, we endeavor to register our major trademarks in every country where we believe the protection of these trademarks is important for our business. Our major trademarks include Atlantic, Elektra, Sire, Reprise, Parlophone, Rhino, WEA and Warner/Chappell. We also use certain trademarks pursuant to royalty-free license agreements. Of these, the duration of the license relating to the WARNER and WARNER MUSIC marks and “W” logo is perpetual. The duration of the license relating to the WARNER BROS. RECORDS mark and WB & Shield designs is fifteen years from February 29, 2004. Each of the licenses may be terminated under certain limited circumstances, which may include material breaches of the agreement, certain events of insolvency, and certain change of control events if we were to become controlled by a major filmed entertainment company. We actively monitor and protect against activities that might infringe, dilute, or otherwise harm our trademarks.

Joint Ventures

We have entered into joint venture arrangements pursuant to which we or our various subsidiary companies manufacture, distribute and market (in most cases, domestically and internationally) recordings owned by the joint ventures. An example of this arrangement is Frank Sinatra Enterprises, a joint venture established to administer licenses for use of Frank Sinatra’s name and likeness and manage all aspects of his music, film and stage content.

Employees

As of September 30, 2014, we employed approximately 4,180 persons worldwide, including temporary and part-time employees. None of our employees in the U.S. are subject to a collective bargaining agreement, although certain employees in our non-domestic companies are covered by national labor agreements. We believe that our relationship with our employees is good.

Financial Information About Segments

Financial and other information by segment, and relating to foreign and domestic operations, and customer concentration for each of the last three fiscal years is set forth in Note 15 to the Consolidated Audited Financial Statements.

INDUSTRY OVERVIEW

Recorded Music

Recorded music is one of the primary mediums of entertainment for consumers worldwide and in calendar year 2013, according to IFPI, generated $15.0 billion in trade value of sales. Over time, major recorded music companies have built significant recorded music catalogs, which are long-lived assets that are exploited year after year. The sale of catalog material is typically more profitable than that of new releases, given lower development costs and more limited marketing costs. Through the end of calendar Q3 2014 (i.e., the week ending September 28, 2014), according to SoundScan, 51% of all calendar year-to-date U.S. album unit sales were from recordings more than 18 months old, with 42% from recordings more than three years old.

According to IFPI, the top five territories (the U.S., Japan, Germany, the U.K., and France) collectively accounted for 74% of the related sales in the recorded music market in calendar year 2013. The U.S., which is the most significant exporter of music, is also the largest territory for recorded music sales, constituting 30% of total calendar year 2013 recorded music sales on a trade value basis. The U.S. and Japan are largely local music markets, with 93% and 85% of their calendar year 2013 physical music sales consisting of domestic repertoire, respectively. In contrast, markets like the U.K. have higher percentages of international sales, with domestic repertoire in that territory constituting a relatively lower 50% of physical music sales.

There has been a major shift in distribution of recorded music from specialty shops towards mass-market and online retailers in recent years. According to RIAA, record stores' share of U.S. music sales declined from 45% in calendar year 1999 to 30% in calendar year 2008, and according to the market research firm NPD, record/entertainment/electronics stores' share of U.S. music sales totaled 18% in 2009. U.S. mass-market and other stores' share grew from 38% in calendar 1999 to 54% in calendar year 2004, and with the subsequent growth of sales via online channels since that time, their share contracted to 28% in calendar year 2008. Mass-market retailers accounted for 19% of total industry unit sales calculated on a total album plus digital track equivalent (ten tracks per album) unit basis in the U.S. in calendar year 2013, according to SoundScan data. In recent years, online sales of physical product as well as digital downloads have grown to represent an increasing share of U.S. unit sales and combined they accounted for 67% of total industry unit sales in calendar year 2013. In terms of genre, rock remains the most popular style of music in the U.S., representing 35% of album unit sales and 23% of digital track unit sales in the U.S. in calendar year 2013, although genres such as rap/hip-hop, R&B, country, pop and Latin music are also popular.

According to RIAA, from calendar years 1990 to 1999, the U.S. recorded music industry grew at a compound annual growth rate of 7.6%. This growth, largely paralleled around the world, was driven by demand for music, the replacement of vinyl LPs and cassettes with CDs, price increases and strong economic growth. The industry began experiencing negative growth rates in calendar year 1999, on a global basis, primarily driven by an increase in digital piracy. Other drivers of this decline were and are the overall recessionary economic environment, bankruptcies of record retailers and wholesalers, growing competition for consumer discretionary spending and retail shelf space and the maturation of the CD format, which has slowed the historical growth pattern of recorded music sales. Since that time, annual dollar sales of physical music product in the U.S. are estimated to have declined at a compound annual growth rate of 12%, although there was a 2.5% year-over-year increase recorded in 2004. In calendar year 2013, the physical business experienced a 12% year-over-year decline on a value basis. Performance in calendar year 2014 thus far suggests that double-digit declines may be sustained this year as well. According to SoundScan, through the end of calendar Q3 2014 (i.e., the week ending September 28, 2014), calendar year-to-date U.S. recorded music album unit sales (excluding sales of digital tracks) were down 14% year-over-year. According to SoundScan, adding digital track sales to the unit album totals based on SoundScan's standard ten-tracks-per-album equivalent, the U.S. music industry was also down 14% in overall album unit sales calendar year-to-date through Q4 2014, reflecting the softness in digital track (and album) sales that the industry has been witnessing this year. The overall declining trend that has been experienced in the U.S. has also been witnessed in international markets, with the extent of declines driven primarily by differing penetration levels of piracy-enabling technologies, such as broadband access and CD-R technology, and economic conditions.

Notwithstanding these factors, we believe that music industry results could improve based on the continued mobilization of the industry as a whole against piracy and the development and broad adoption of legitimate digital distribution channels.

Piracy

One of the industry's biggest challenges is combating piracy. Music piracy exists in two primary forms: digital (which includes illegal downloading and CD-R piracy) and industrial:

Digital piracy has grown dramatically, enabled by the increasing penetration of broadband Internet access and the ubiquity of powerful microprocessors, fast optical drives (particularly with writable media, such as CD-R) and large inexpensive disk storage in personal computers. The combination of these technologies has allowed consumers to easily, flawlessly and almost instantaneously make high-quality copies of music using a home computer by "ripping" or converting musical content from CDs into digital files, stored on local disks. These digital files can then be distributed for free over the Internet through anonymous peer-to-peer file sharing networks such as BitTorrent and Frostwire ("illegal downloading"). Alternatively, these files can be burned onto multiple CDs for physical distribution ("CD-R piracy"). IFPI identified 15.9 million infringing music files for removal online in 2012, a fraction of the tens of billions of files that are estimated to be downloaded illegally.

Industrial piracy (also called counterfeiting or physical piracy) involves mass production of illegal CDs in factories. This form of piracy is largely concentrated in developing regions, and has existed for more than two decades. The sale of legitimate recorded music in these developing territories is limited by the dominance of pirated products, which are sold at substantially lower prices than legitimate products. Based upon most recent data available, the International

Intellectual Property Alliance (IIPA) estimated that U.S. trade losses due to physical piracy of records and music in 39 key countries/territories around the world with copyright protection and/or enforcement deficiencies totaled $1.5 billion in 2009. The IIPA also believes that piracy of records and music is most prevalent in territories such as Indonesia, China, the Philippines, Mexico, India and Argentina, where piracy levels are at 60% or above.

In 2003, the industry launched an intensive campaign to limit piracy that focused on four key initiatives:

Technological: The technological measures against piracy are geared towards degrading the illegal filesharing process and tracking providers and consumers of pirated music. These measures include spoofing, watermarking, copy protection, the use of automated webcrawlers and access restrictions.

Educational: Led by RIAA and IFPI, the industry launched an aggressive campaign of consumer education designed to spread awareness of the illegality of various forms of piracy through aggressive print and television advertisements. These efforts have yielded positive results in impacting consumer behaviors and attitudes with regard to filesharing of music. A survey conducted by The NPD Group, a market research firm, in December 2013 showed that about 1 in 10 U.S. Internet

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users aged 13 or older who stopped or decreased their usage of filesharing services for music in the year covered by the survey were motivated by concerns about being sued and/or the legality of such services, as well as moral implications. Research conducted by Ipsos MediaCT in November 2013 across ten countries found that 55% of Internet users believed that "accessing music through services that don't have the copyright owner's permission is unfair to those creating and producing the content."

Legal: In conjunction with its educational efforts, the industry has taken aggressive legal action against file-sharers and is continuing to fight industrial pirates. These actions include civil lawsuits in the U.S. and E.U. against individual pirates, arrests of pirates in Japan and raids against filesharing services in Australia. At one time U.S. lawsuits targeted individuals who illegally shared large quantities of music-based content. A number of court decisions, including the decisions in the cases involving Grokster and KaZaA, have held that one who distributes a device, such as P2P software, with the object of promoting its use to infringe copyright can be liable for the resulting acts of infringement by third parties using the device regardless of the lawful uses of the device. In May 2011, the major record companies, including us, reached a global out-of-court settlement of copyright litigation against LimeWire. Under the terms of the settlement, the LimeWire defendants agreed to pay compensation to record companies that brought the action, including us.

Development of online and mobile alternatives: We believe that the development and success of legitimate digital music channels will be an important driver of recorded music sales and monetization going forward, as they represent both an incremental revenue stream and a potential inhibitor of piracy. The music industry has been encouraged by the proliferation and success of legitimate digital music distribution options. We believe that these legitimate online distribution channels offer several advantages to illegal peer-to-peer networks, including greater ease of use, higher quality and more consistent music product, faster downloading and streaming, better search and discovery capabilities and seamless integration with portable digital music players. Legitimate online download stores and streaming music services began to be established in 2001 beginning with the launch of Rhapsody in late 2001 and continuing through the launch of Apple's iTunes music store in April 2003. Since then, many others (both large and small) have launched download and ad-supported and subscription streaming music services, offering a variety of models, including per-track pricing, per-album pricing and monthly subscriptions. According to IFPI in the 2014 edition of their annual "Recording Industry in Numbers" publication, there are about 450 legal digital music services providing alternatives to illegal filesharing in markets around the world, with major international services operating in more than 100 territories. Devices such as smartphones and tablets that are equipped with new capabilities are increasingly offering consumers greater capability to acquire and consume full-track downloads and streaming audio and video through mobile platforms as well as online. These devices are further facilitating usage of legitimate options.

These efforts are incremental to the long-standing push by organizations such as RIAA and IFPI to curb industrial piracy around the world. In addition to these actions, the music industry is increasingly coordinating with other similarly impacted industries (such as software and filmed entertainment) to combat piracy.

We believe these actions have had a positive effect. A survey conducted by NPD in December 2012 showed that 41% of U.S. Internet users aged 13 or older who downloaded music from a filesharing service at any point in the past two years stopped or decreased their usage of such filesharing services in the year covered by the survey.

Internationally, we believe governmental initiatives in a number of countries designed to protect intellectual property should also be helpful to the music industry and measures are being adopted in an increasing number of countries to achieve better ISP cooperation. Solutions to online piracy and making progress towards meaningful ISP cooperation against online piracy are also being adopted or pursued through government-sponsored negotiations of codes of practice or cross-industry agreements and remedies arising out of litigation, such as obtaining injunctions requiring ISPs to block access to infringing sites. We believe these actions, as well as other actions also currently being taken in many countries around the world, represent a positive trend internationally and a recognition by governments around the world that urgent action is required to reduce online piracy and in particular unlawful filesharing because of the harm caused to the creative industries. While these government actions have not come without some controversy, we continue to lobby for legislative change through music industry bodies and trade associations in jurisdictions where enforcement of copyright in the context of online piracy remains problematic due to existing local laws or prior court decisions.

Music Publishing

Background

Music publishing involves the acquisition of rights to, and licensing of, musical compositions (as opposed to recordings) from songwriters, composers or other rightsholders. Music publishing revenues are derived from five main royalty sources: Mechanical, Performance, Synchronization, Digital and Other.

In the U.S., mechanical royalties are collected by music publishers from recorded music companies or via The Harry Fox Agency, a non-exclusive licensing agent affiliated with NMPA, while outside the U.S., collection societies generally perform this function. Once mechanical royalties reach the publisher (either directly from record companies or from collection societies), percentages of those royalties are paid or credited to the writer or other rightsholder of the copyright in accordance with the underlying rights agreement. Mechanical royalties are paid at a penny rate of 9.1 cents per song per unit in the U.S. for physical formats (e.g., CDs and vinyl albums) and permanent digital downloads (recordings in excess of five minutes attract a higher rate) and 24 cents for ringtones. There are also rates set for interactive streaming and non-permanent downloads based on a formula that takes into account revenues paid by consumers or advertisers with certain minimum royalties that may apply depending on the type of service. “Controlled composition” provisions contained in some recording agreements may apply to the rates mentioned above pursuant to which artist/songwriters license their rights to their record companies for as little as 75% of the statutory rates. The current U.S. statutory mechanical rates will remain in effect through December 31, 2017. In most other territories, mechanical royalties are based on a percentage of wholesale prices for physical product and based on a percentage of consumer prices for digital products. In international markets, these rates are determined by multi-year collective bargaining agreements and rate tribunals.

Throughout the world, performance royalties are typically collected on behalf of publishers and songwriters by performance rights organizations and collection societies. Key performing rights organizations and collection societies include: The American Society of Composers, Authors and Publishers (ASCAP), SESAC and Broadcast Music, Inc. (BMI) in the U.S.; Mechanical-Copyright Protection Society and The Performing Right Society (“MCPS/PRS”) in the U.K.; The German Copyright Society in Germany (“GEMA”) and the Japanese Society for Rights of Authors, Composers and Publishers in Japan (“JASRAC”). The societies pay a percentage (which is set in each country) of the performance royalties to the copyright owner(s) or administrators (i.e., the publisher(s)), and a percentage directly to the songwriter(s), of the composition. Thus, the publisher generally retains the performance royalties it receives other than any amounts attributable to co-publishers.

The music publishing market has proven to be more resilient than the recorded music market in recent years as revenue streams other than mechanical royalties are largely unaffected by piracy, and are benefiting from additional sources of income from digital exploitation of music in downloads and mobile ringtones. The worldwide professional music publishing market was estimated to have generated approximately $4.0 billion in revenues in calendar year 2013 according to figures published in May 2014 by Music & Copyright.

In addition, major publishers have the opportunity to generate significant value by the acquisition of other music publishers by extracting cost savings (as acquired libraries can be administered with little incremental cost) and by increasing revenues through more aggressive marketing efforts.

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business

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

The industry has experienced negative growth rates on a global basis since 1999 and the worldwide recorded music market has contracted considerably. Illegal downloading of music, CD-R piracy, industrial piracy, economic recession, bankruptcies of record wholesalers and retailers, and growing competition for consumer discretionary spending and retail shelf space may have all contributed to the decline in the recorded music industry. Additionally, the period of growth in recorded music sales driven by the introduction and penetration of the CD format has long ended. While CD sales still generate a significant portion of the recorded music revenues globally, CD sales continue to decline industry-wide and we expect that trend to continue. However, new formats for selling recorded music product have been created, including the legal downloading and streaming of digital music and revenue streams from these new channels have emerged. These new digital revenue streams are important as they are partially offsetting declines in physical sales and represent a growing area of our Recorded Music business. In addition, we are also taking steps to broaden our revenue mix into growing areas of the music business, including sponsorship, fan clubs, artist websites, merchandising, touring, concert promotion, ticketing and artist management. As our expansion into these new areas is fairly recent, we cannot determine how our expansion into these new areas will impact our business. While there are signs of industry stabilization, results vary by territory and continue to fluctuate year to year. While IFPI reported that global recorded music industry revenues grew 0.2% in 2012, the first time in 13 years the industry grew year-over-year, global industry revenue dropped 3.9% in 2013 as a result of steep declines in Japan. Excluding Japan, global industry revenue was largely flat in 2013, down 0.1%. IFPI also noted that in 2013, Europe saw growth for the first time in 12 years, with all five top markets—France, Germany, Italy, Netherlands and the U.K.—seeing an increase in revenues. According to the RIAA, the estimated retail value of the U.S. recorded music industry unit sales declined by only 0.3% in 2013, and declined by 1.7% in 2012, two consecutive years which show a marked improvement versus a decade of steep declines prior to 2011. However, the industry continues to be negatively impacted as a result of ongoing digital piracy and the transition from physical to digital sales in the recorded music business. Accordingly, the recorded music industry performance may continue to negatively impact our operating results. While it is believed within the recorded music industry that growth in digital revenues will re-establish a growth pattern for recorded music sales, the timing of the recovery cannot be established with accuracy nor can it be determined how these changes will affect individual markets. A declining recorded music industry is likely to lead to reduced levels of revenue and operating income generated by our Recorded Music business. Additionally, a declining recorded music industry is also likely to have a negative impact on our Music Publishing business, which generates a significant portion of its revenues from mechanical royalties attributable to the sale of music in CD and other physical recorded music formats. Digital downloads remain a key revenue stream for the recorded music industry, and there has been ample growth in the streaming category, resulting in the latter's increasing contribution to overall industry digital revenues. According to IFPI, digital downloads accounted for 67% of digital revenues in 2013. Streaming revenue, which includes revenue from ad-supported and subscription services, accounted for 27% of digital revenues in 2013, up from 14% in 2011. Although revenues from digital downloads fell slightly by 2.1% in 2013, the decline was offset by an increase in streaming revenue, helping digital revenues grow by 4.3%. We believe these trends have far more to do with the increase in Google's Android device user base as compared to Apple's iOS device user base than they have to do with streaming services "cannibalizing" download services. Streaming models comprise a range of margins. For some streaming models, our margins are superior to those for downloads and for others, our margins are slightly less. We expect these trends to continue to impact our results for the foreseeable future.

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

There are a variety of factors that could cause us to reduce our prices and reduce our profit margins. They are, among others, price competition from the sale of motion pictures and videogames in physical and digital formats, the negotiating leverage of mass merchandisers, big-box retailers and distributors of digital music, the increased costs of doing business with mass merchandisers and big-box retailers as a result of complying with operating procedures that are unique to their needs and any changes in costs or profit margins associated with new digital business, including the impact of ad-supported music services, some of which may be able to avail themselves of “safe harbor” defenses against copyright infringement actions under copyright laws. In addition, we are currently dependent on a small number of leading digital music services, which allows them to significantly influence the prices we can charge in connection with the distribution of digital music. Over the course of the last decade, U.S. mass-market and other stores’ share of

U.S. physical music sales has continued to grow. While we cannot predict how future competition will impact music retailers, as the music industry continues to transform it is possible that the share of music sales by a small number of leading mass-market retailers such as Wal-Mart and Target and digital music services such as Apple's iTunes and Google Play will continue to grow, which could further increase their negotiating leverage and put pressure on profit margins. See "—We are substantially dependent on a limited number of digital music services, in particular Apple's iTunes Music Store, for the online sale of our music recordings and they are able to significantly influence the pricing structure for online music stores."

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

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

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

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

Organized industrial piracy may lead to decreased sales.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Our success depends, in part, upon the continuing contributions of our executive officers, however, there is no guarantee that they will not leave. Some of our executive officers have employments arrangements. We do not have a direct employment arrangement with our CEO and certain of our other executive officers have at-will employment letters. Our CEO and each of our executive officers who have at-will employment letters have elected to participate in the Warner Music Group Corp. Senior Management Cash Flow Plan, and the at-will employment letters were a condition to their participation in the Plan. The loss of the services of any of our executive officers or the failure to attract other executive officers could have a material adverse effect on our business or our business prospects.

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

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

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

As of September 30, 2014, we had $1.661 billion of goodwill and $120 million of indefinite-lived intangible assets. Financial Accounting Standards Codification (“ASC”) Topic 350, Intangibles—Goodwill and other (“ASC 350”) requires that we test these assets for impairment annually (or more frequently should indications of impairment arise) by first assessing qualitative factors and then by quantitatively estimating the fair value of each of our reporting units (calculated using a discounted cash flow method) and comparing that value to the reporting units’ carrying value, if necessary. If the carrying value exceeds the fair value, there is a potential impairment and additional testing must be performed. In performing our annual tests and determining whether indications of impairment exist, we consider numerous factors including actual and projected operating results of each reporting unit, external market factors such as market prices for similar assets and trends in the music industry. The Company performed an annual assessment, at July 1, 2014, of the recoverability of its goodwill and indefinite-lived intangibles as of September 30, 2014, noting no instances of impairment. However, future events may occur that could adversely affect the estimated fair value of our reporting units. Such events may include, but are not limited to, strategic decisions made in response to changes in economic and competitive conditions and the impact of the economic environment on our operating results. Failure to achieve sufficient levels of cash flow at our reporting units could also result in impairment charges on goodwill and indefinite-lived intangible assets. If the value of the acquired goodwill or acquired indefinite-lived intangible assets is impaired, our operating results and shareholders' equity could be adversely affected.

We also had $2.884 billion of definite-lived intangible assets as of September 30, 2014. Financial Accounting Standard Board ("FASB") ASC Topic 360-10-35, ("ASC 360-10-35") requires companies to review these assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If similar events occur as enumerated above such that we believe indicators of impairment are present, we would test for recoverability by comparing the carrying value of the asset to the net undiscounted cash flows expected to be generated from the asset. If those net undiscounted cash flows do not exceed the carrying amount, we would perform the next step, which is to determine the fair value of the asset, which could result in an impairment charge. Any impairment charge recorded would negatively affect our operating results and shareholders' equity.

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

The reporting currency for our financial statements is the U.S. dollar. We have substantial assets, liabilities, revenues and costs denominated in currencies other than U.S. dollars. To prepare our Consolidated Financial Statements, we must translate those assets, liabilities, revenues and expenses into U.S. dollars at then-applicable exchange rates. Consequently, increases and decreases in the value of the U.S. dollar versus other currencies will affect the amount of these items in our Consolidated Financial Statements, even if their value has not changed in their original currency. These translations could result in significant changes to our results of operations from period to period. Prior to intersegment eliminations, 63% of our revenues related to operations in foreign territories for the fiscal year ended September 30, 2014. From time to time, we enter into foreign exchange contracts to hedge the risk of unfavorable foreign currency exchange rate movements. As of September 30, 2014, we have hedged a portion of our material foreign currency exposures related to royalty payments remitted between our foreign affiliates and our U.S. affiliates through the end of the current fiscal year.

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

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

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

California Labor Code Section 2855 ("Section 2855") limits the duration of time any individual can be bound under a contract for "personal services" to a maximum of seven years. In 1987, Subsection (b) was added, which provides a limited exception to Section 2855 for recording contracts, creating a damages remedy for record companies.

Legislation was introduced in New York in 2009 to create a statute similar to Section 2855 to limit contracts between artists and record companies to a term of seven years which term could be reduced to three years if the artist was not represented in the negotiation and execution of such contracts by qualified counsel experienced with entertainment industry law and practices. Such legislation could result in certain of our existing contracts with artists being declared unenforceable, or may restrict the terms under which we enter into contracts with artists in the future, either of which could adversely affect our results of operations. There is no assurance that California will not introduce legislation in the future seeking to repeal Subsection (b). The repeal of Subsection (b) and/or the passage of legislation similar to Section 2855 by other states could materially affect our results of operations and financial position.

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

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

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

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

Any future strategic transaction could involve numerous risks, including:

potential disruption of our ongoing business and distraction of management;
potential loss of recording artists or songwriters from our rosters;
difficulty integrating the acquired businesses or segregating assets to be disposed of;
exposure to unknown and/or contingent or other liabilities, including litigation arising in connection with the acquisition, disposition and/or against any businesses we may acquire;
reputational or other damages to our business as a result of a failure to consummate such a transaction for, among other reasons, failure to gain anti-trust approval; and
changing our business profile in ways that could have unintended consequences.

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

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

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

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

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

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

The recorded music industry continues to undergo substantial change. These changes continue to have a substantial impact on our business. See "—The recorded music industry has been declining and may continue to decline, which may adversely affect our prospects and our results of operations." Following the 2004 acquisition of substantially all of the interests of the recorded music and music publishing business of Time Warner, we implemented a broad restructuring plan in order to adapt our cost structure to the changing economics of the music industry. Since then, we have continued to shift resources from our physical sales channels to efforts focused on digital distribution, emerging technologies and other new revenue streams. In addition, in order to help mitigate the effects of the recorded music transition, we continue our efforts to reduce overhead and manage our variable and fixed-cost structure to minimize any impact. In addition, as PLG had meaningful operational overlap with our existing business, we have taken actions to achieve cost savings in conjunction with the PLG Acquisition.

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

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

As a result of the Merger, affiliates of Access indirectly own all of our common stock, and the actions that Access undertakes as our sole ultimate shareholder may differ from or adversely affect the interests of debt holders. Because

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

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

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

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

Cinram International Inc. (collectively, with its affiliates and subsidiaries, “Cinram”) has been our primary supplier for the manufacturing, packaging and physical distribution of our products in the United States and Canada and portions of Europe. Any future inability of Cinram to provide services could require us to switch to substitute suppliers of these services. As Cinram continues to be our primary supplier of manufacturing and distribution services in the United States, Canada and portions of Europe, our continued ability to meet our manufacturing, packaging and physical distribution requirements in those territories depends largely on Cinram’s continued successful operation in accordance with the service level requirements mandated by us in our service agreements. If, for any reason, Cinram were to fail to meet contractually required service levels, or were unable to otherwise continue to provide services, we may have difficulty satisfying our commitments to our wholesale and retail customers in the short term until we more fully transitioned to an alternate provider, which could have an adverse impact on our revenues.

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

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

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

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

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

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

We receive certain personal information about our customers and potential customers, and we also receive personal information concerning our employees, artists and vendors. In addition, our online operations depend upon the secure transmission of confidential information over public networks. We maintain security measures with respect to such information, but despite these measures, we may be vulnerable to security breaches by computer hackers and others that attempt to penetrate the security measures that we have in place. A compromise of our security systems (through cyber-attacks or otherwise which are rapidly evolving and sophisticated) that results in personal information being obtained by unauthorized persons could adversely affect our reputation with our customers, potential customers, employees, artists and vendors, as well as our operations, results of operations, financial condition and liquidity, and could result in litigation against us or the imposition of governmental penalties. We may also be subject to cyber-attacks that target our music-based content, including not-yet-released songs or albums. The theft and premature release of this music-based content may adversely affect our reputation with current and potential artists and adversely impact our results of operations and financial condition. In addition, a security breach could require that we expend significant additional resources related to our information security systems and could result in a disruption of our operations.

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

Risks Related to our Leverage

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

We are highly leveraged. As of September 30, 2014, our total consolidated indebtedness, including the current portion, was $3.030 billion. In addition, we would have been able to borrow up to $150 million under our Revolving Credit Facility (not giving effect to letters of credit outstanding of approximately $11 million as of September 30, 2014).

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

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

limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate;
place us at a competitive disadvantage compared to competitors that have less indebtedness; and
limit our ability to borrow additional funds that may be needed to operate and expand our business.

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

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

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

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

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

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

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

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

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

- pay dividends on, and redeem and purchase, equity interests;
- make other restricted payments;
- make prepayments on, redeem or repurchase certain debt;
- incur certain liens;
- make certain loans and investments;

incur certain additional debt;
enter into guarantees and hedging arrangements;
enter into mergers, acquisitions and asset sales;
enter into transactions with affiliates;
change the business we and our subsidiaries conduct;
restrict the ability of our subsidiaries to pay dividends or make distributions;
amend the terms of subordinated debt and unsecured bonds; and
make certain capital expenditures.

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

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

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

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

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own studio and office facilities and also lease certain facilities in the ordinary course of business. Our worldwide headquarters are currently located at 1633 Broadway, New York, New York 10019, under a long-term lease ending July 31, 2029. The lease also includes a single option for us to extend the term for either five years or 10 years. In addition, under certain conditions, we have the ability to lease additional space in the building and have a right of first refusal with regard to certain additional space. We also have a long-term lease ending on December 31, 2019, for office space in a building located at 3400 West Olive Avenue, Burbank, California 91505, used primarily by our Recorded Music business, and another lease ending on June 30, 2017 for office space at 1290 Avenue of the Americas, New York, New York 10104, used primarily by our Recorded Music business. We intend to consolidate employees currently located at 1290 Avenue of the Americas into our new worldwide headquarters space at 1633 Broadway. We also have a five-year lease ending on September 30, 2017 for office space at 10585 Santa Monica Boulevard, Los Angeles, California 90025, used primarily by our Music Publishing business. We also own other property and lease facilities elsewhere throughout the world as necessary to operate our businesses. We consider our properties adequate for our current needs.

ITEM 3. LEGAL PROCEEDINGS

Pricing of Digital Music Downloads

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

Upon remand to the District Court, all defendants, including the Company, filed a renewed motion to dismiss challenging, among other things, plaintiffs' state law claims and standing to bring certain claims. The renewed motion was based mainly on arguments made in defendants' original motion to dismiss, but not addressed by the District Court. On July 18, 2011, the District Court granted defendants' motion in part, and denied it in part. Notably, all claims on behalf of the CD-purchaser class were dismissed with prejudice. However, a wide variety of state and federal claims remain for the class of internet download purchasers. Plaintiffs filed an operative consolidated amended complaint on August 31, 2011. Pursuant to the terms of an August 15, 2011 stipulation and order, the case is currently in discovery. Disputes regarding the scope of discovery are ongoing. Plaintiffs filed a Class Certification brief on March 14, 2014. The Company's reply date has not yet been set. 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. Plaintiffs filed their motion for final approval of the Settlement Agreement on November 26, 2014. The hearing on final approval of the settlement is scheduled for January 8, 2015. 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 4. MINE SAFETY DISCLOSURES

Not Applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

There is no established public trading market for any class of our common equity. As of December 11, 2014, there were 1,055 shares of our common stock outstanding. Affiliates of Access Industries, Inc. currently own 100% of our common stock.

Dividend Policy

We did not pay any cash dividends to our stockholders in the fiscal years ended September 30, 2014, 2013 or 2012. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors our Board of Directors may deem relevant.

Our ability to pay dividends is restricted by covenants in the indentures governing our notes and in the credit agreements for our Term Loan Facility and the Revolving Credit Facility.

ITEM 6. SELECTED FINANCIAL DATA

Our summary balance sheet data as of September 30, 2014 and 2013, and the statement of operations and other data for the fiscal years ended September 30, 2014, 2013 and 2012 have been derived from our audited financial statements included in this annual report on Form 10-K and should be read in conjunction with the audited financial statements and other financial information presented elsewhere herein. The selected financial information set forth below for all other periods has been derived from our audited financial statements that are not included in this annual report on Form 10-K. In addition, in accordance with United States Generally Accepted Accounting Principles ("U.S. GAAP"), we have separated our historical financial results for the period from July 20, 2011 to September 30, 2011 ("Successor") and for the period from October 1, 2010 to July 19, 2011 ("Predecessor"). Successor and Predecessor periods are presented on different bases and are, therefore, not comparable.

The following table sets forth our selected historical financial and other data as of the dates and for the periods ended:

	Successor				Predecessor	
	Fiscal Year Ended September 30, 2014	Fiscal Year Ended September 30, 2013	Fiscal Year Ended September 30, 2012	From July 20, 2011 through September 30, 2011	From October 1, 2010 through July 19, 2011	Year Ended September 30, 2010
	(in millions)					
Statement of Operations Data:						
Revenues	$3,027	$ 2,871	$ 2,780	$ 556	$2,311	$ 2,988
Net loss attributable to Warner Music Group Corp. (1) (2)	(308)	(198)	(112)	(31)	(174)	(143)
Diluted loss per common share (3)					(1.15)	(0.96)
Dividends per common share					—	—
Balance Sheet Data (at period end):						
Cash and equivalents	$157	$ 155	$ 302	$ 154		$ 439
Total assets	5,954	6,252	5,278	5,380		3,811
Total debt (including current portion of long-term debt)	3,030	2,867	2,206	2,217		1,945
Warner Music Group Corp. equity (deficit)	371	726	927	1,065		(265)

Cash Flow Data:						
Cash flows provided by (used in):						
Operating activities	$130	$ 159	$ 209	$ (64)	$12	$ 150
Investing activities	(155)	(808)	(58)	(1,292)	(155)	(85)
Financing activities	37	511	(3)	1,199	5	(3)
Capital expenditures	(76)	(34)	(32)	(11)	(37)	(51)

(1) Net loss attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2014 includes $50 million of PLG restructuring charges and $59 million of PLG related professional fees and integration costs. Net loss attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2013 includes a transaction fee under the Management Agreement of $11 million related to the PLG Acquisition, $22 million of PLG restructuring charges, and $43 million of PLG related professional fees and integration costs. Net loss attributable to Warner Music Group Corp. for the period from July 20, 2011 through September 30, 2011 and for the period from October 1, 2010 through July 19, 2011 include $10 million and $43 million of transaction costs, respectively, in connection with the Merger.

(2) Net loss attributable to Warner Music Group Corp. includes severance charges unrelated to the PLG Acquisition of $7 million, $11 million, $42 million, $9 million, $29 million and $54 million for the fiscal year ended September 30, 2014, the fiscal year ended September 30, 2013, the fiscal year ended September 30, 2012, the period from July 20, 2011 through September 30, 2012, the period from October 1, 2010 through July 19, 2011, and the fiscal year ended September 30, 2010, respectively.

(3) Net loss per share for our Predecessor results were calculated by dividing net loss attributable to Warner Music Group Corp. by the weighted average common shares outstanding.

ITEM 7. 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 audited financial statements included elsewhere in this Annual Report on Form 10-K for the fiscal year ended September 30, 2014 (the "Annual Report").

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

This Annual 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 on 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 Annual Report. Additionally, important factors could cause our actual results to differ materially from the forward-looking statements we make in this Annual Report. As stated elsewhere in this Annual Report, such risks, uncertainties and other important factors include, among others:

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

our dependence on a limited number of digital music services, in particular Apple's iTunes Music Store, for the online sale of our music recordings and their ability to significantly influence the pricing structure for online music stores;

our involvement in intellectual property litigation;

our ability to continue to enforce our intellectual property rights in digital environments;

the ability to develop a successful business model applicable to a digital environment and to enter into artist services and expanded-rights deals with recording artists in order to broaden our revenue streams in growing segments of the music business;

the impact of heightened and intensive competition in the recorded music and music publishing businesses and our inability to execute our business strategy;
failure to realize expected cost savings and other synergies and benefits contemplated by the PLG Acquisition;
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;
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 United States and Canada and part of Europe;

risks related to evolving regulations concerning data privacy which might result in increased regulation and different industry standards;
changes in law and government regulations; and
risks related to other factors discussed under “Risk Factors” of this Annual Report.
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 Annual 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 Annual Report and are expressly qualified in their entirety by the cautionary statements included in this Annual 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 audited 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 a discussion of factors 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 fiscal years ended September 30, 2014, September 30, 2013 and September 30, 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 fiscal years ended September 30, 2014, September 30, 2013 and September 30, 2012, as well as a discussion of our financial condition and liquidity as of September 30, 2014. The discussion of our financial condition and liquidity includes a summary of the key debt compliance measures under our debt agreements.
Critical Accounting Policies. This section identifies those accounting policies that are considered important to the Company’s results of operations and financial condition, require significant judgment and involve significant management estimates. The Company’s significant accounting policies, including those considered to be critical accounting policies, are summarized in Note 2 to the accompanying Consolidated Financial Statements.
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 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; Alternative Distribution Alliance (“ADA”), which distributes the products of independent labels to retail and wholesale distributors; various distribution centers and ventures operated internationally; and an 80% interest in Word, which specializes in the distribution of music products in the Christian retail marketplace.

In addition to our Recorded Music products being sold in physical retail outlets, our Recorded Music products are also sold in physical form to online physical retailers such as Amazon.com, barnesandnoble.com and bestbuy.com and in digital form to digital download services such as Apple's iTunes and Google Play, and are otherwise used by digital streaming services such as Beats Music, Deezer, Rhapsody, Spotify and YouTube, 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 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 royalty costs associated with distributing 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

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, 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. Through consistent and tactical talent investment, Warner Chappell has developed a broad array of talent across all genres, resulting in Warner/Chappell being awarded ASCAP's Top Publisher of the Year for each of Pop, Country and Urban, in 2014. 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 rightsholder receives revenues 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 rightsholder receives revenues with respect to compositions embodied in recordings sold in any physical format or configuration such as CDs, LPs and DVDs;
- Synchronization: the rightsholder receives revenues 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 rightsholder receives revenues with respect to digital download services, streaming services and other online and mobile digital music services; and
- Other: the rightsholder receives revenues 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.

Acquisition of the Parlophone Label Group

On July 1, 2013, the Company completed the acquisition of Parlophone Label Group ("PLG") from Universal Music for £487 million, subject to a closing working capital adjustment, in an all-cash transaction (the "PLG Acquisition") pursuant to a Share Sale and Purchase Agreement (the "PLG Agreement"). The final working capital adjustment was received from Universal Music on November 21, 2014. The total working capital adjustment, including the previously disclosed preliminary adjustment of £13 million and the final adjustment, was £36 million, bringing the final purchase price, net of cash received of £31 million, to £492 million. See also "PLG Working Capital Adjustment" below. PLG included 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 was 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 Alborán, Pink Floyd, Radiohead, Roxette, Tina Turner and Tinie Tempah, as well as many developing and up-and-coming artists. PLG's EMI Classics and Virgin Classics brand names were not included with the PLG Acquisition. WMG has rebranded these businesses, respectively, as Warner Classics and Erato.

Recent Developments

2014 Debt Refinancing

On April 9, 2014, the Company completed a refinancing of its $765 million of 11.5% Senior Notes due 2018 (the "2014 Refinancing"). In connection with the 2014 Refinancing, the Company issued $275 million in aggregate principal amount of its 5.625% Senior Secured Notes due 2022 and $660 million in aggregate principal amount of its 6.750% Senior Notes due 2022 and repaid $765 million of 11.50% Senior Notes due 2018.

See "Financial Condition and Liquidity" for more information.

Acquisition of Gold Typhoon

On April 29, 2014, we announced that we had signed a definitive agreement to acquire the music catalog and current roster of recording artists of Gold Typhoon Group, one of the most successful independent music companies operating in the Greater China Region. The Gold Typhoon catalog is one of the largest and most acclaimed collections of local pop and rock music from China, Hong Kong and Taiwan, including many influential and popular releases from the early 1990's until the present day. The acquisition was completed on July 22, 2014.

Factors Affecting Results of Operations and Financial Condition

EMI and PLG Related Costs

We incurred certain costs, primarily representing professional fees, related to our participation in a sales process, which resulted in the sale of EMI's recorded music and music publishing businesses, including the subsequent review of the transactions by the U.S. Federal Trade Commission, the European Commission and other regulatory bodies, and the subsequent sale of Parlophone Label Group by Universal Music Group. Subsequent to the close of the PLG Acquisition, we also incurred other integration and other nonrecurring costs related to the PLG Acquisition. Total professional fees and integration costs amounted to approximately $59 million for the fiscal year ended September 30, 2014 and were recorded in the consolidated statements of operation, $6 million within product costs and $53 million within general and administrative expense. Total professional fees and integration costs amounted to approximately $43 million for the fiscal year ended September 30, 2013 and $14 million for the fiscal year ended September 30, 2012, and were recorded in the consolidated statements of operation within general and administrative expense. All material integration costs are expected to be incurred by the end of fiscal 2015.

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

In conjunction with the PLG Acquisition, we undertook a plan to achieve cost savings (the "Restructuring Plan"), primarily through headcount reductions and real estate consolidation. The Restructuring Plan was approved by our CEO. Under the Restructuring Plan, we currently expect to record an aggregate of approximately $77 million in restructuring costs, currently estimated to be made up of employee-related costs of $69 million, real estate costs of $6 million and other costs of $2 million. Total restructuring costs of $50 million have been incurred during the fiscal year ended September 30, 2014 with respect to these actions, which consist of $45 million of employee-related costs, $4 million of real estate costs and $1 million of other costs. Total restructuring costs of $22 million were incurred during the fiscal year ended September 30, 2013 with respect to these actions, which consisted entirely of employee-related costs. Total restructuring costs of $72 million have been incurred to date under the Restructuring Plan. A significant portion of these charges have resulted in and will continue to result in cash expenditures. Total cash payments of $59 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 $77 million in expected restructuring costs do not include other integration and other nonrecurring costs related to the PLG Acquisition noted above that are currently estimated to be $88 million, which do not qualify as restructuring costs.

As of September 30, 2014, these actions were substantially complete and 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 approximately $45 million in cost savings. We expect to realize the remaining benefits of such synergies over the next 12 months. Although management currently believes such cost savings and other synergies will be realized following the PLG Acquisition, there can be no assurance that these cost savings or any other synergies will be achieved in full.

PLG Working Capital Adjustment

We recorded the final working capital adjustment of $38 million (£23 million) related to our PLG acquisition in the fiscal year ended September 30, 2014. We also released various asset and liability balances as they are settled as a result of the final completion statement. This represents the finalization of the purchase price for PLG and resulted in a charge of $4 million recorded to income tax expense as the measurement period for this acquisition has closed. We have accrued for the impact of this subsequent event in our results for the year ended September 30, 2014 as it represents the culmination of our previously estimated adjusted purchase price for PLG as described in Note 4.

Severance Charges

We recorded severance charges (unrelated to the PLG Acquisition) of $7 million, $11 million, and $42 million for the fiscal years ended September 30, 2014, 2013 and 2012, respectively. These charges resulted from actions taken in the fiscal year ended September 30, 2012 to further align our cost structure with industry trends and actions taken in the fiscal year ended September 30, 2013 to reorganize certain of our record labels.

Expanding Business Models to Drive Incremental Revenue

Digital

The global recorded music industry is moving increasingly to digital with access models and downloads enabling additional channels of revenue generation. We intend to continue to extend our global reach by developing and optimizing business models that will enable us to monetize our content across platforms, services and devices. In the United States, for the fiscal year ended September 30, 2014, our Recorded Music digital revenue exceeded our physical revenue. While there are signs of industry stabilization, the industry continues to be impacted as a result of the transition to digital. It is believed within the recorded music industry that growth in digital revenues will re-establish a growth pattern for recorded music but the timing of that recovery cannot be established with accuracy, nor can it be determined how those changes will affect individual markets.

While to date, sales of online and mobile downloads have constituted the majority of our digital Recorded Music and Music Publishing revenue, a transition to streaming models is underway. According to industry shipments and revenue data released by the RIAA, streaming revenues rose 39% year-over-year in 2013 in the United States, growing streaming's share of overall industry revenues from 15% to 21%. While streaming revenue growth has offset the decline in download revenue, declines in physical revenue continue to outpace digital revenue's growth in the recorded music industry. As the digital transition develops, it is reasonable to expect that margins will trend higher given the elimination of certain costs associated with physical products, such as manufacturing, distribution, inventory and return. Partially eroding that benefit are certain digital-specific variable costs and infrastructure investments necessary to produce, market and sell music in digital formats, as well as increases in copyright royalties payable to music publishers. As consumer purchasing patterns change over time and new digital models are launched and continue to grow, we may see fluctuations in contribution margin depending on the overall sales mix.

Artist Services and Expanded-Rights Deals

We have also expanded our relationships with recording artists as another means to offset declines in physical revenues in Recorded Music. For example, we have signed recording artists to expanded-rights deals. Under these expanded-rights deals, we participate in the recording artist's revenue streams, other than from recorded music sales, such as live performances, merchandising and sponsorships. Artist services and expanded-rights Recorded Music revenue, which includes revenue from expanded-rights deals as well as revenue from our artist services business, represented approximately 11% of our total revenue during fiscal year ended September 30, 2014. Artist services and expanded-rights revenue will fluctuate from period to period depending upon touring schedules, among other things. 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 operating income with little cost. Revenue from our management business and revenue from sponsorship and touring under expanded-rights deals are all high margin, while merchandise revenue under expanded-rights deals and concert promotion revenue from our concert promotion businesses tend to be lower margin than our traditional revenue streams from Recorded Music and Music Publishing.

Management Agreement

Upon completion of the Merger, the Company and Holdings entered into a management agreement with Access, dated as of the Merger Closing Date (the "Management Agreement"), pursuant to which Access will provide 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 $8 million, $19 million and $8 million for the fiscal years ended September 30, 2014, 2013 and 2012, respectively, which includes the annual fee and reimbursement of certain expenses in connection with the Management Agreement, but excludes $2 million of expenses reimbursed related to certain consultants with full time roles at the Company for each of the fiscal years ended September 30, 2014, 2013 and 2012. For the fiscal year ended September 30, 2014, we also incurred an $11 million transaction fee related to the PLG Acquisition. Such amounts have been included as a component of selling, general and administrative expense in the accompanying statement of operations.

RESULTS OF OPERATIONS

Fiscal Year Ended September 30, 2014 Compared with Fiscal Year Ended September 30, 2013 and Fiscal Year Ended September 30, 2012

Consolidated Results

Revenues

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

	For the Fiscal Year Ended September 30,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
Revenue by Type							
Physical	$822	$900	$970	$(78)	-9%	$(70)	-7%
Digital	1,103	997	865	106	11%	132	15%
Total Physical and Digital	1,925	1,897	1,835	28	2%	62	3%
Artist services and expanded-rights	332	270	244	62	23%	26	11%
Licensing	269	222	202	47	21%	20	10%
Total Recorded Music	2,526	2,389	2,281	137	6%	108	5%
Performance	206	197	200	9	5%	(3)	-2%
Mechanical	101	113	128	(12)	-11%	(15)	-12%
Synchronization	102	98	111	4	4%	(13)	-12%
Digital	97	83	66	14	17%	17	26%
Other	11	12	13	(1)	-8%	(1)	-8%
Total Music Publishing	517	503	518	14	3%	(15)	-3%
Intersegment eliminations	(16)	(21)	(19)	5	-24%	(2)	11%
Total Revenue	$3,027	$2,871	$2,780	$156	5%	$91	3%
Revenue by Geographical Location							
U.S. Recorded Music	$948	$973	$915	$(25)	-3%	$58	6%
U.S. Music Publishing	193	188	198	5	3%	(10)	-5%
Total U.S.	1,141	1,161	1,113	(20)	-2%	48	4%
International Recorded Music	1,578	1,416	1,366	162	11%	50	4%
International Music Publishing	324	315	320	9	3%	(5)	-2%
Total International	1,902	1,731	1,686	171	10%	45	3%
Intersegment eliminations	(16)	(21)	(19)	5	-24%	(2)	11%
Total Revenue	$3,027	$2,871	$2,780	$156	5%	$91	3%

Total Revenue

2014 vs. 2013

Total revenue increased by $156 million, or 5%, to $3.027 billion for the fiscal year ended September 30, 2014 from $2.871 billion for the fiscal year ended September 30, 2013. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 83% and 17% of revenues for both the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2013. Prior to intersegment eliminations, U.S. and international revenues represented 37% and 63% of total revenues for the fiscal year ended September 30, 2014 and 40% and 60% of total revenues for the fiscal year ended September 30, 2013. Excluding the favorable impact of foreign currency exchange rates, total revenues increased by $149 million, or 5%.

Our overall results included the impact of PLG revenue of $322 million for the fiscal year ended September 30, 2014 and $59 million for the fiscal year ended September 30, 2013. Excluding the impact of PLG, total revenue decreased by $107 million, or 4%. The total revenue decline, excluding PLG, was primarily due to an overall light release schedule for recorded music in the current year, partially offset by Music Publishing strength in performance, synchronization and digital revenue. Results for the fiscal year ended September 30, 2013 only include PLG revenues from July 1, 2013 through September 30, 2013, which represented carryover from prior-period releases, as there were no new releases for PLG during the quarter ended September 30, 2013.

Total digital revenues after intersegment eliminations increased by $120 million, or 11%, to $1.196 billion for the fiscal year ended September 30, 2014 from $1.076 billion for the fiscal year ended September 30, 2013. Total digital revenues represented 40% and 38% of consolidated revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2014 were comprised of U.S. revenues of $594 million and international revenues of $606 million, or each 50% of total digital revenues. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2013 were comprised of U.S. revenues of $574 million and international revenues of $506 million, or 53% and 47% of total digital revenues, respectively.

Recorded Music revenues increased by $137 million, or 6%, to $2.526 billion for the fiscal year ended September 30, 2014 from $2.389 billion for the fiscal year ended September 30, 2013. U.S. Recorded Music revenues were $948 million and $973 million, or 38% and 41% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively. International Recorded Music revenues were $1.578 billion and $1.416 billion, or 62% and 59% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively.

The overall Recorded Music results include $322 million in revenue from PLG. Excluding PLG, Recorded Music revenue declined $107 million due to the overall lighter release schedule as compared to the prior year. The current year included a successful second half with the release of Coldplay's "Ghost Stories" and Ed Sheeran's "x". Excluding the impact of PLG revenue, physical revenue declined $206 million. The decline was driven by the ongoing shift in demand towards digital product, and was further compounded by the comparatively light release schedule for recorded music. We continued to see growth in streaming services revenue, which grew by $200 million in total, and $150 million excluding the impact of PLG revenue, reflecting the increased consumer demand for streaming services. Offsetting this growth was a $91 million decline in digital download revenue, or a $133 million decline excluding the impact of PLG revenue. Artist services and expanded-rights revenue increased $62 million as a result of strong concert promotion revenue in Europe due to the timing of tours. Licensing revenue increased $47 million primarily due to licensing revenue from PLG. Excluding the favorable impact of foreign currency exchange rates, total Recorded Music revenue increased by $133 million, or 6%.

Music Publishing revenues increased by $14 million, or 3%, to $517 million for the fiscal year ended September 30, 2014 from $503 million for the fiscal year ended September 30, 2013. U.S. Music Publishing revenues were $193 million and $188 million, both 37%, of Music Publishing revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively. International Music Publishing revenues were $324 million and $315 million, both 63%, of Music Publishing revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively.

The increase in Music Publishing revenue was due to increases in performance revenue, synchronization revenue and digital revenue partially offset by a decrease in mechanical revenue. The increase in performance revenue was driven by the timing of a collection society distribution of $9 million related to prior periods. The increase in synchronization revenue was driven by a $3 million increase in commercial income, a $3 million increase in motion picture income, partially offset by a $2 million decrease in television program income. In addition, digital revenue continued to grow primarily due to a $15 million increase in streaming services revenue. The decrease in mechanical revenue was driven by the ongoing transition towards digital product in the music industry. Excluding the favorable impact of foreign currency exchange rates, total Music Publishing revenue increased by $11 million, or 2%.

2013 vs. 2012

Total revenue increased by $91 million, or 3%, to $2.871 billion for the fiscal year ended September 30, 2013 from $2.780 billion for the fiscal year ended September 30, 2012. Prior to intersegment eliminations, Recorded Music and

Music Publishing revenues represented 83% and 17% of revenues for the fiscal year ended September 30, 2013 and 81% and 19% of total revenues for the fiscal year ended September 30, 2012, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 40% and 60% of total revenues for both the fiscal year ended September 30, 2013 and September 30, 2012. Excluding the unfavorable impact of foreign currency exchange rates, total revenues increased by $136 million, or 5%.

Our overall results include the impact of PLG revenues from July 1, 2013 through September 30, 2013, including PLG revenues of $59 million. The additional revenue represents carryover from prior-period releases, as there were no new releases for PLG during the quarter ended September 30, 2013. Excluding the impact of PLG, total revenues increased by $32 million, or 1%.

Total digital revenues after intersegment eliminations increased by $151 million, or 16%, to $1.076 billion for the fiscal year ended September 30, 2013 from $925 million for the fiscal year ended September 30, 2012. Total digital revenues represented 38% and 33% of consolidated revenues for the fiscal year ended September 30, 2013 and September 30, 2012, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2013 were comprised of U.S. revenues of $574 million and international revenues of $506 million, or 53% and 47% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2012 were comprised of U.S. revenues of $526 million and international revenues of $405 million, or 56% and 44% of total digital revenues, respectively.

Recorded Music revenues increased by $108 million, or 5%, to $2.389 billion for the fiscal year ended September 30, 2013 from $2.281 billion for the fiscal year ended September 30, 2012. U.S. Recorded Music revenues were $973 million and $915 million, or 41% and 40% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2013 and September 30, 2012, respectively. International Recorded Music revenues were $1.416 billion and $1.366 billion, or 59% and 60% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2013 and September 30, 2012, respectively.

The overall increase in Recorded Music revenue reflected growth in digital revenues, which more than offset the continued decline in physical sales, as well as increases in artist services and expanded-rights revenue and licensing revenue. The decrease in physical sales was driven by the ongoing transition from physical to digital sales as well as the comparatively strong prior-year performance of Michael Bublé's "Christmas" album and key local releases in Japan, which were more heavily weighted towards physical sales. The current year included the success of Led Zeppelin's "Celebration Day" which was more heavily weighted towards physical sales. Excluding the impact of PLG, physical revenues declined $90 million. Digital revenues continued to grow, up $132 million, or 15%, in the current year, and more than offset the declines in physical revenue for a second consecutive year. Excluding the impact of PLG, digital revenues increased $106 million. The increase was driven by strong growth in downloads, which increased $50 million, and in streaming and subscription services, which increased $75 million, offset by the decline in mobile revenue of $19 million, which reflected the continued decrease in demand for ringtones and ringback tones. The increases were attributable to current-year releases such as Bruno Mars' "Unorthodox Jukebox" and current-year releases under third-party distribution deals, as well as continued success from prior-period releases with strong digital carryover sales from Flo Rida and fun. Excluding the impact of PLG, artist services and expanded-rights revenue increased $21 million due to timing of tours in Europe and Asia and higher merchandising revenue in the U.S. Excluding the impact of PLG, licensing revenues increased $12 million primarily due to timing. Excluding the unfavorable impact of foreign currency exchange rates, total Recorded Music revenues increased by $150 million, or 7%.

Music Publishing revenues decreased by $15 million, or 3%, to $503 million for the fiscal year ended September 30, 2013 from $518 million for the fiscal year ended September 30, 2012. U.S. Music Publishing revenues were $188 million and $198 million, or 37% and 38%, of Music Publishing revenues for the fiscal year ended September 30, 2013 and September 30, 2012, respectively. International Music Publishing revenues were $315 million and $320 million, or 63% and 62%, of Music Publishing revenues for the fiscal year ended September 30, 2013 and September 30, 2012, respectively.

The overall decrease in Music Publishing revenue was driven primarily by the continued decline in mechanical revenue and a decline in synchronization revenue, partially offset by the increase in digital revenue. The decrease in mechanical revenue reflected the impact of the ongoing transition from physical to digital sales in the music industry as well as the decision to exit certain lower-margin deals in the prior year. The decrease in synchronization revenue reflected lower overall demand in the commercial and videogame market. The increase in digital revenue reflected continued growth in digital downloads of $6 million and streaming and subscription services of $10 million. Excluding the unfavorable impact of foreign currency exchange rates, total Music Publishing revenues decreased by $12 million, or 2%.

Revenue by Geographical Location

2014 vs. 2013

U.S. revenues decreased by $20 million, or 2%, to $1.141 billion for the fiscal year ended September 30, 2014 from $1.161 billion for the fiscal year ended September 30, 2013. U.S. Recorded Music revenue decreased $25 million, or $80 million excluding the impact of PLG revenue. The primary driver was the decrease in U.S. Recorded Music physical revenue which declined $49 million, or $66 million excluding the impact of PLG revenue. The physical decline was due to the ongoing shift in demand towards digital product and as well as the timing of the release schedule. U.S. Recorded Music digital revenue increased $11 million, but decreased $24 million excluding the impact of PLG revenue. This decline reflected a comparatively light release schedule for recorded music in the current year. U.S. Recorded Music artist services and expanded-rights revenue increased $7 million due to higher merchandise sales and managed tour income. U.S. Music Publishing revenues increased $5 million primarily due to a $9 million increase in U.S. Music Publishing digital revenue as a result of the continued growth in streaming service revenue and a $4 million increase in synchronization revenue resulting from an increase in commercial income. Overall demand in the commercial market was lower in the comparative year. Partially offsetting these increases was a decline in mechanical revenue of $7 million as a result of the ongoing impact of the transition from physical to digital product in the music industry.

International revenues increased by $171 million, or 10%, to $1.902 billion for the fiscal year ended September 30, 2014 from $1.731 billion for the fiscal year ended September 30, 2013. International Recorded Music revenue increased $162 million, but decreased $46 million excluding the impact of PLG revenue. International Recorded Music physical revenue decreased $29 million, or

$140 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 for recorded music in the current year. Offsetting this decrease was an increase in digital revenue of $95 million, or $37 million excluding the impact of PLG revenue. The main driver of the $37 million increase was a $94 million increase in streaming services revenue, reflecting the increased consumer demand and increasing availability of streaming access models internationally, offset by a $55 million decline in digital download revenue and a $2 million decline in mobile revenue. International Recorded Music artist services and expanded-rights revenue increased $55 million due to a $39 million increase in Italy for tours from artists including Ligabue, a $20 million increase in France for tours from artists including Christophe Maé, partially offset by a $13 million decrease in Japan, resulting from the Superfly tour in the prior year. International Recorded Music Licensing revenue increased $41 million primarily due to PLG. International Music Publishing revenue increased $9 million primarily due to a $9 million increase in performance revenue due to the timing of a collection society distribution and a $5 million increase in digital revenue due to an increase in streaming services revenue, partially offset by a $5 million decline in mechanical revenue driven by the ongoing transition towards digital product in the music industry. Excluding the favorable impact of foreign currency exchange rates, total international revenue increased $164 million, or 9%.

2013 vs. 2012

U.S. revenues increased by $48 million, or 4%, to $1.161 billion for the fiscal year ended September 30, 2013 from $1.113 billion for the fiscal year ended September 30, 2012. The increase in U.S. revenues reflected the growth in Recorded Music digital revenues, licensing revenues and artist services revenue slightly offset by a decline in Recorded Music physical revenues and Music Publishing revenues. U.S. Recorded Music physical revenue declined $6 million as a result of the continued shift in demand toward digital product, but was offset by current-year releases with strong physical demand such as Michael Bublé's "To Be Loved" and Blake Shelton's "Based on a True Story…". U.S. Recorded Music digital revenues increased $39 million as a result of the continued growth in digital download revenue of $20 million and in streaming and subscription service revenue of $32 million, due to the increased availability and demand of digital formats including the introduction of new cloud and locker services, partially offset by a decline in mobile revenue of $13 million. U.S. licensing revenues increased $11 million due to timing. U.S. artist services and expanded-rights revenues increased $14 million as a result of increased merchandise sales on managed tours of $7 million. U.S. Music Publishing revenues decreased $10 million primarily due to a $6 million decline in mechanical revenue as a result of the ongoing impact of the transition from physical to digital product in the music industry and synchronization revenue of $11 million as a result of lower overall demand in the commercial and videogame markets. Partially offsetting these declines was the growth in U.S. Music Publishing digital revenue of $9 million as a result of the continued growth in digital download revenue of $5 million and in streaming and subscription service revenue of $4 million.

International revenues increased by $45 million, or 3%, to $1.731 billion for the fiscal year ended September 30, 2013 from $1.686 billion for the fiscal year ended September 30, 2012. Excluding the impact of PLG, International Recorded Music revenues decreased $9 million. Excluding the impact of PLG, International Recorded Music physical sales decreased $84 million primarily due to comparatively strong performance of key local releases in Japan in the prior year. Excluding the impact of PLG, International Recorded Music digital revenues increased $67 million as a result of growth in digital download revenue of $30 million and in streaming and subscription service revenue of $43 million, and was mainly attributable to continued success from current-year releases including Bruno Mars' "Unorthodox Jukebox" and current-year releases under third party distribution deals with strong digital demand, partially offset by a decline in mobile revenue of $6 million. Excluding the impact of PLG, artist services and expanded-rights revenue increased $7 million, primarily due to the timing of tours in Japan which increased $6 million and increased merchandise sales on managed tours in the U.K. of $2 million. International Music Publishing revenues decreased $5 million primarily due to declines in mechanical revenue of $9 million as a result of the ongoing impact of the transition from physical to digital product in the music industry and performance revenue of $3 million.

Partially offsetting these declines was the growth in International Music Publishing digital revenue of $8 million as a result of the continued growth in streaming and subscription service revenue of $6 million and digital download revenue of $1 million. Excluding the unfavorable impact of foreign currency exchange rates, total international revenues increased $90 million, or 6%.

Cost of revenues

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

	For the Fiscal Year Ended September 30,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
Artist and repertoire costs	$998	$949	$965	$49	5%	$(16)	-2%
Product costs	572	543	490	29	5%	53	11%
Total cost of revenues	$1,570	$1,492	$1,455	$78	5%	$37	3%

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2014 vs. 2013

Our cost of revenues increased by $78 million, or 5%, to $1.570 billion for the fiscal year ended September 30, 2014 from $1.492 billion for the fiscal year ended September 30, 2013. Expressed as a percentage of revenues, cost of revenues remained flat at 52% for both the fiscal year ended September 30, 2014 and September 30, 2013.

Artist and repertoire costs increased by $49 million, or 5%, to $998 million for the fiscal year ended September 30, 2014 from $949 million for the fiscal year ended September 30, 2013 due to higher royalty expense associated with higher revenues. Artist and repertoire costs as a percentage of revenues remained flat at 33% for both the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2013.

Product costs increased by $29 million, or 5%, to $572 million for the fiscal year ended September 30, 2014 from $543 million for the fiscal year ended September 30, 2013. The increase was primarily driven by an increase in artist services and expanded-rights revenue. Product costs also includes $6 million of other integration costs associated with the PLG Acquisition, primarily related to supply chain integration. Product costs as a percentage of revenues remained flat at 19% for both the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2013.

2013 vs. 2012

Our cost of revenues increased by $37 million, or 3%, to $1.492 billion for the fiscal year ended September 30, 2013 from $1.455 billion for the fiscal year ended September 30, 2012. Expressed as a percentage of revenues, cost of revenues remained flat at 52% for both the fiscal year ended September 30, 2013 and September 30, 2012.

Artist and repertoire costs decreased by $16 million, or 2%, to $949 million for the fiscal year ended September 30, 2013 from $965 million for the fiscal year ended September 30, 2012. The decrease in artist and repertoire costs was driven by a shift towards higher margin Music Publishing deals, which more than offset an increase in revenue in the current year and the cost-recovery benefit of $8 million in the prior year. Artist and repertoire costs as a percentage of revenues decreased to 33% for the fiscal year ended September 30, 2013 from 35% for the fiscal year ended September 30, 2012, due to a shift towards higher margin deals in Music Publishing.

Product costs increased by $53 million, or 11%, to $543 million for the fiscal year ended September 30, 2013 from $490 million for the fiscal year ended September 30, 2012, primarily as a result of the increase in revenue. Product costs as a percentage of revenues increased to 19% for the fiscal year ended September 30, 2013 from 18% for the fiscal year ended September 30, 2012 due to the revenue mix driven by increases in Recorded Music artist services and expanded-rights revenue offset by the continued shift from physical to digital. Costs associated with our artist services and expanded-rights business are primarily recorded as a component of product costs. Revenue growth in artist services and expanded-rights was due to concert promotion and merchandise on managed tours, which tend to yield lower margins than our physical and digital revenue.

Selling, general and administrative expenses

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

	For the Fiscal Year Ended September 30,	2014 vs. 2013	2013 vs. 2012

	2014	2013	2012	$ Change	% Change		$ Change	% Change	
General and administrative expense (1)	$659	$616	$578	$43	7	%	$38	7	%
Selling and marketing expense	451	422	390	29	7	%	32	8	%
Distribution expense	62	59	55	3	5	%	4	7	%
Total selling, general and administrative expense	$1,172	$1,097	$1,023	$75	7	%	$74	7	%

(1) Includes depreciation expense of $55 million, $51 million and $51 million for the fiscal year ended September 30, 2014, 2013 and 2012, respectively.

2014 vs. 2013

Total selling, general and administrative expense increased by $75 million, or 7%, to $1.172 billion for the fiscal year ended September 30, 2014 from $1.097 billion for the fiscal year ended September 30, 2013. Expressed as a percentage of revenues, selling, general and administrative expenses increased to 39% for the fiscal year ended September 30, 2014 from 38% for the fiscal year ended September 30, 2013.

General and administrative expenses increased by $43 million, or 7%, to $659 million for the fiscal year ended September 30, 2014 from $616 million for the fiscal year ended September 30, 2013. The increase in general and administrative expense was primarily due to a $28 million increase in PLG restructuring costs, a $5 million increase in PLG Acquisition related professional fees from our participation in the sales process and other integration costs, including transitional employees, PLG overhead costs, and a $20 million increase in facilities cost due to the overlap in terms on the lease of our new corporate headquarters with our existing headquarters lease and non-cash costs associated with terminating one of our New York office leases. These increases were partially offset by a $14 million decrease in variable compensation, a $11 million decrease in share-based compensation expense and a $4 million decrease in severance charges unrelated to the PLG Acquisition. Expressed as a percentage of revenue, general and administrative expense remained flat at 22% for both the fiscal year ended September 30, 2014 and September 30, 2013.

Selling and marketing expense increased by $29 million, or 7%, to $451 million for the fiscal year ended September 30, 2014 from $422 million for the fiscal year ended September 30, 2013. Selling and marketing expense increased in line with the increase in revenue and was largely the result of higher variable marketing spending. Expressed as a percentage of revenues, selling and marketing expense remained flat at 15% for both the fiscal year ended September 30, 2014 and September 30, 2013.

Distribution expense increased by $3 million, or 5%, to $62 million for the fiscal year ended September 30, 2014 from $59 million for the fiscal year ended September 30, 2013 due to increased revenue. Expressed as a percentage of revenues, distribution expense remained flat at 2% for both the fiscal year ended September 30, 2014 and September 30, 2013.

2013 vs. 2012

Total selling, general and administrative expense increased by $74 million, or 7%, to $1.097 billion for the fiscal year ended September 30, 2013 from $1.023 billion for the fiscal year ended September 30, 2012. Expressed as a percentage of revenues, selling, general and administrative expenses increased to 38% for the fiscal year ended September 30, 2013 from 37% for the fiscal year ended September 30, 2012.

General and administrative expenses increased by $38 million, or 7%, to $616 million for the fiscal year ended September 30, 2013 from $578 million for the fiscal year ended September 30, 2012. The increase in general and administrative expense was due to $19 million of share-based compensation expense, $11 million of a transaction fee under the Management Agreement related to the PLG Acquisition, $22 million of restructuring expense, and a $24 million increase in PLG Acquisition related professional fees and integration costs compared to the prior year. This was partially offset by lower variable compensation and $31 million lower severance expense unrelated to the PLG Acquisition. The current-year results do not yet reflect the expected synergies from the PLG Acquisition, which may not be realized in full. Expressed as a percentage of revenues, general and administrative expenses increased to 22% for the fiscal year ended September 30, 2013 from 21% for the fiscal year ended September 30, 2012.

Selling and marketing expense increased by $32 million, or 8%, to $422 million for the fiscal year ended September 30, 2013 from $390 million for the fiscal year ended September 30, 2012, primarily related to higher variable marketing expense related to current-year releases. Expressed as a percentage of revenues, selling and marketing expense increased to 15% for the fiscal year ended September 30, 2013 from 14% for the fiscal year ended September 30, 2012, primarily as a result of the strong sales performance of Michael Bublé’s “Christmas” in the prior year, which had a lower proportionate marketing spend than current-year releases.

Distribution expense increased by $4 million, or 7%, to $59 million for the fiscal year ended September 30, 2013 from $55 million for the fiscal year ended September 30, 2012 due to increased revenue. Expressed as a percentage of revenues, distribution expense remained flat at 2% for the fiscal year ended September 30, 2013 and September 30, 2012.

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

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

	For the Fiscal Year Ended September 30,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
OIBDA	$340	$333	$353	$7	2%	$(20)	-6%
Depreciation expense	(55)	(51)	(51)	(4)	8%	—	—%
Amortization expense	(266)	(207)	(193)	(59)	29%	(14)	7%
Operating income	19	75	109	(56)	-75%	(34)	-31%
Loss on extinguishment of debt	(141)	(85)	—	(56)	66%	(85)	—%
Interest expense, net	(203)	(203)	(225)	—	—%	22	-10%
Other (expense) income, net	(4)	(12)	8	8	-67%	(20)	—%
Loss before income taxes	(329)	(225)	(108)	(104)	46%	(117)	108%
Income tax benefit (expense)	26	31	(1)	(5)	-16%	32	—%
Net loss	(303)	(194)	(109)	(109)	56%	(85)	78%
Less: Income attributable to noncontrolling interest	(5)	(4)	(3)	(1)	25%	(1)	33%
Net loss attributable to Warner Music Group Corp.	$(308)	$(198)	$(112)	$(110)	56%	$(86)	77%

OIBDA

2014 vs. 2013

Our OIBDA increased by $7 million, or 2%, to $340 million for the fiscal year ended September 30, 2014 as compared to $333 million for the fiscal year ended September 30, 2013 primarily as a result of the flow through of higher revenues, offset by higher cost of revenues, and higher selling, general and administrative expense. As a percentage of revenues, total OIBDA decreased slightly to 11% for the fiscal year ended September 30, 2014 from 12% for the fiscal year ended September 30, 2013 mainly due to non-recurring charges related to PLG restructuring and integration costs in both years, as noted above.

2013 vs. 2012

Our OIBDA decreased by $20 million, or 6%, to $333 million for the fiscal year ended September 30, 2013 as compared to $353 million for the fiscal year ended September 30, 2012. Expressed as a percentage of revenues, total OIBDA margin decreased to 12% for the fiscal year ended September 30, 2013, from 13% for the fiscal year ended September 30, 2012.

Our OIBDA decrease is primarily due to the increase in selling, general and administrative expenses resulting from the PLG Acquisition, specifically restructuring expense of $22 million, a transaction fee under the Management Agreement of $11 million and $43 million in integration costs and professional fees, which were $29 million higher than in the prior year. The remaining increase of $42 million, excluding these items, was a result of an increase in revenue with a related increase in cost of revenues, decreases in selling, general and administrative expenses unrelated to the PLG Acquisition, and an increase in selling and marketing expense of $32 million, primarily related to higher variable marketing due to higher revenues. Overall, this resulted in a decreased OIBDA margin.

Depreciation expense

2014 vs. 2013

Our depreciation expense increased by $4 million, or 8%, to $55 million for the fiscal year ended September 30, 2014 from $51 million for the fiscal year ended September 30, 2013 primarily as a result of the increased capital expenditures related to IT projects, as well as consolidating our New York office space into our new headquarters and $2 million of accelerated depreciation associated with the move.

2013 vs. 2012

Our depreciation expense remained flat at $51 million, for the fiscal year ended September 30, 2013 and the fiscal year ended September 30, 2012.

Amortization expense

2014 vs. 2013

Amortization expense increased by $59 million, or 29%, to $266 million for the fiscal year ended September 30, 2014 from $207 million for the fiscal year ended September 30, 2013 due to the PLG Acquisition and the resulting increase in amortizable intangible assets. The fiscal year ended September 30, 2014 included a full year of amortization for the intangibles related to the PLG Acquisition, whereas the fiscal year ended September 30, 2013 only included 3 months of amortization.

2013 vs. 2012

Amortization expense increased by $14 million, or 7%, to $207 million for the fiscal year ended September 30, 2013 from $193 million for the fiscal year ended September 30, 2012 due to the PLG Acquisition and the resulting increase in amortizable intangible assets.

Operating income (loss)

2014 vs. 2013

Our operating income decreased $56 million, or 75%, to $19 million for the fiscal year ended September 30, 2014 from $75 million for the fiscal year ended September 30, 2013. The decrease in operating income was due to the factors that led to the increase in OIBDA noted above which was more than offset by the increase in depreciation and amortization expense, as noted above.

2013 vs. 2012

Our operating income decreased $34 million, or 31%, to $75 million for the fiscal year ended September 30, 2013 from $109 million for the fiscal year ended September 30, 2012. The decrease in operating income was primarily due to the decrease in OIBDA and the increase in amortization expense as noted above.

Loss on extinguishment of debt

2014 vs. 2013

We recorded a loss on extinguishment of debt in the amount of $141 million for the fiscal year ended September 30, 2014 as compared to a loss on extinguishment of debt in the amount of $85 million for the fiscal year ended September 30, 2013. On April 9, 2014, we completed the 2014 Refinancing. We made a redemption payment of $869 million, which included the repayment of our previously outstanding $765 million 11.5% Senior Notes due 2018, tender/call premiums of $85 million and consent fees of approximately $19 million. As a result, we recorded a $141 million loss on the extinguishment of debt for the fiscal year ended September 30, 2014, which represents the difference between the redemption payment and the carrying value of the debt, including unamortized discounts of $13 million and unamortized debt and issuance costs of $24 million as of the refinancing date.

On November 1, 2012, we completed a refinancing of our then outstanding Senior Secured Notes due 2016. We made a redemption payment of $1.377 billion, which included the repayment of our previously outstanding $1.250 billion Old Secured Notes, tender/call premiums of $93 million and consent fees of approximately $34 million. As a result, we recorded an $83 million loss on the extinguishment of debt for the fiscal year ended September 30, 2013, which represents the difference between the redemption payment and the carrying value of the debt as of the refinancing date. Additionally, on June 21, 2013, we redeemed 10% of our then outstanding Senior Secured Notes due 2021. As a result, we recorded an additional loss on the extinguishment of debt of $2 million for the nine months ended June 30, 2013, which represents the premium paid on early redemption.

2013 vs. 2012

We recorded a loss on extinguishment of debt in the amount of $85 million for the fiscal year ended September 30, 2013, as noted above. There was no such activity or comparable charges in the fiscal year ended September 30, 2012.

Interest expense, net

2014 vs. 2013

Our interest expense, net, remained flat at $203 million for both the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2013. This was driven by additional principal debt outstanding offset by lower interest rates as a result of the 2014 Refinancing of certain debt obligations.

2013 vs. 2012

Our interest expense, net, decreased by $22 million, or 10%, to $203 million for the fiscal year ended September 30, 2013 from $225 million for the fiscal year ended September 30, 2012. The decrease was primarily driven by the refinancing of our Senior Secured Notes due 2016 on November 1, 2012 and the modification of the Term Loan Facility on May 9, 2013, partially offset by the increase in debt related to the PLG Acquisition. Our current debt obligations have lower comparable interest rates than the debt obligations outstanding in the prior year.

Other (expense) income, net

2014 vs. 2013

Other expense, net, decreased by $8 million, or 67%, to $4 million for the fiscal year ended September 30, 2014 from $12 million for the fiscal year ended September 30, 2013. 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.

2013 vs. 2012

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. The fiscal year ended September 30, 2013 also included a $7 million expense for the reimbursement of tax indemnities received in the fiscal year ended September 30, 2012 as a result of tax law changes in Germany. The fiscal year ended September 30, 2012 included a $7 million payment received for tax indemnities related to tax matters in Brazil.

Income tax benefit (expense)

2014 vs. 2013

We incurred income tax benefit of $26 million for the fiscal year ended September 30, 2014 compared to $31 million for the fiscal year ended September 30, 2013, due to pre-tax losses in both periods.

2013 vs. 2012

We incurred income tax benefit of $31 million for the fiscal year ended September 30, 2013 as compared to an expense of $1 million for the fiscal year ended September 30, 2012. The decrease in the income tax expense primarily relates to the recognition of deferred tax benefits for higher losses in certain foreign jurisdictions related to the PLG Acquisition, the impact of a tax rate change in the U.K. and a tax benefit related to a German tax law change for the fiscal year ended September 30, 2013.

Net loss

2014 vs. 2013

Our net loss increased by $109 million, to $303 million for the fiscal year ended September 30, 2014 as compared to $194 million for the fiscal year ended September 30, 2013. The increased loss was driven by the decrease in operating income and increase in the loss on extinguishment of debt, as noted above, partially offset by lower other expense.

2013 vs. 2012

Our net loss increased by $85 million, to a net loss of $194 million for the fiscal year ended September 30, 2013 as compared to a net loss of $109 million for the fiscal year ended September 30, 2012. The increased loss was driven by the loss on extinguishment of debt, the decrease in operating income noted above, and the increase in other expense, partially offset by lower interest expense and lower income tax expense.

Noncontrolling interest

2014 vs. 2013

Net income attributable to noncontrolling interests was $5 million for the fiscal year ended September 30, 2014 and $4 million for the fiscal year ended September 30, 2013.

2013 vs. 2012

Net income attributable to noncontrolling interests was $4 million for the fiscal year ended September 30, 2013 and $3 million for the fiscal year ended September 30, 2012.

Business Segment Results

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

	For the Fiscal Year Ended September 30,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
Recorded Music							
Revenue	$2,526	$2,389	$2,281	$137	6 %	$108	5 %
OIBDA	267	270	289	(3)	-1 %	(19)	-7 %
Operating income	$31	$92	$126	$(61)	-66 %	$(34)	-27 %
Music Publishing							
Revenue	$517	$503	$518	$14	3 %	$(15)	-3 %
OIBDA	166	148	146	18	12 %	2	1 %
Operating income	$94	$81	$79	$13	16 %	$2	3 %
Corporate expenses and eliminations							
Revenue elimination	$(16)	$(21)	$(19)	$5	-24 %	$(2)	11 %
OIBDA	(93)	(85)	(82)	(8)	9 %	(3)	4 %
Operating loss	$(106)	$(98)	$(96)	$(8)	8 %	$(2)	2 %
Total							
Revenue	$3,027	$2,871	$2,780	$156	5 %	$91	3 %
OIBDA	340	333	353	7	2 %	(20)	-6 %
Operating income	$19	$75	$109	$(56)	-75 %	$(34)	-31 %

Recorded Music

Revenues

2014 vs. 2013

Recorded Music revenues increased by $137 million, or 6%, to $2.526 billion for the fiscal year ended September 30, 2014 from $2.389 billion for the fiscal year ended September 30, 2013. U.S. Recorded Music revenues were $948 million and $973 million, or 38% and 41% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively. International Recorded Music revenues were $1.578 billion and $1.416 billion, or 62% and 59% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively.

The overall Recorded Music results include $322 million in revenue from PLG. Excluding PLG, Recorded Music revenue declined $107 million due to the overall lighter release schedule as compared to the prior year. The current year included a successful second half with the release of Coldplay's "Ghost Stories" and Ed Sheeran's "x". Excluding the impact of PLG revenue, physical revenue declined $206 million. The decline was driven by the ongoing shift in demand towards digital product, and was further compounded by the comparatively light release schedule for recorded music. We continued to see growth in streaming services revenue, which grew by $200 million in total, and $150 million excluding the impact of PLG revenue, reflecting the increased consumer demand for streaming services. Offsetting this growth was a $91 million decline in digital download revenue, or a $133 million decline excluding the impact of PLG revenue. Artist services and expanded-rights revenue increased $62 million as a result of strong concert promotion revenue in Europe due to the timing of tours. Licensing revenue increased $47 million primarily due to licensing revenue from PLG. Excluding the favorable impact of foreign currency exchange rates, total Recorded Music revenue increased by $133 million, or 6%.

2013 vs. 2012

Recorded Music revenues increased by $108 million, or 5%, to $2.389 billion for the fiscal year ended September 30, 2013 from $2.281 billion for the fiscal year ended September 30, 2012. U.S. Recorded Music revenues were $973 million and $915 million, or 41% and 40% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2013 and September 30, 2012, respectively. International Recorded Music revenues were $1.416 billion and $1.366 billion, or 59% and 60% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2013 and September 30, 2012, respectively.

The overall increase in Recorded Music revenue reflected growth in digital revenues, which more than offset the continued decline in physical sales, as well as increases in artist services and expanded-rights revenue and licensing revenue. The decrease in physical sales was driven by the ongoing transition from physical to digital sales as well as the comparatively strong prior-year performance of Michael Bublé’s “Christmas” album and key local releases in Japan, which were more heavily weighted towards physical sales. The current year included the success of Led Zeppelin’s “Celebration Day” which was more heavily weighted towards physical sales. Excluding the impact of PLG, physical revenues declined $90 million. Digital revenues continued to grow, up $132 million, or 15%, in the current year, and more than offset the declines in physical revenue for a second consecutive year. Excluding the impact of PLG, digital revenues increased $106 million. The increase was driven by strong growth in downloads, which increased $50 million, and in streaming and subscription services, which increased $75 million, offset by the decline in mobile revenue of $19 million, which reflected the continued decrease in demand for ringtones and ringback tones. The increases were attributable to current-year releases such as Bruno Mars’ “Unorthodox Jukebox” and current-year releases under third-party distribution deals, as well as continued success from prior-period releases with strong digital carryover sales from Flo Rida and fun. Excluding the impact of PLG, artist services and expanded-rights revenue increased $21 million due to timing of tours in Europe and Asia and higher merchandising revenue in the U.S. Excluding the impact of PLG, licensing revenues increased $12 million primarily due to timing. Excluding the unfavorable impact of foreign currency exchange rates, total Recorded Music revenues increased by $150 million, or 7%.

Cost of revenues

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

	For the Fiscal Year Ended September 30,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
Artist and repertoire costs	$725	$681	$679	$44	7%	$2	0%
Product costs	572	543	490	29	5%	53	11%
Total cost of revenues	$1,297	$1,224	$1,169	$73	6%	$55	5%

2014 vs. 2013

Recorded Music cost of revenues increased by $73 million, or 6%, to $1.297 billion for the fiscal year ended September 30, 2014 from $1.224 billion for the fiscal year ended September 30, 2013. The increase in Recorded Music artist and repertoire costs was primarily due to higher royalty expense associated with higher revenues. The increase in Recorded Music product costs was primarily driven by an increase in artist services and expanded-rights revenue. Recorded Music product costs also includes $6 million of other integration costs associated with the PLG Acquisition, primarily related to supply chain integration. Expressed as a percentage of Recorded Music revenues, cost of revenues remained flat at 51% for both the fiscal year ended September 30, 2014 and September 30, 2013, primarily due to the revenue mix resulting from an increase in the artist services and expanded-rights product costs associated with higher concert promotion revenue, partially offset by lower product costs associated with lower third party distribution revenue. Both concert promotion revenue and revenue associated with third party distribution tend to yield lower margins than our traditional revenue streams.

2013 vs. 2012

Recorded Music cost of revenues increased by $55 million, or 5%, to $1.224 billion for the fiscal year ended September 30, 2013 from $1.169 billion for the fiscal year ended September 30, 2012, primarily as a result of the increase in revenue. Expressed as a percentage of Recorded Music revenues, cost of revenues remained flat at 51% for the fiscal year ended September 30, 2013 and September 30, 2012.

Selling, general and administrative expense

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

	For the Fiscal Year Ended September 30,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
General and administrative expense (1)	$489	$451	$414	$ 38	8 %	$ 37	9 %
Selling and marketing expense	446	417	385	29	7 %	32	8 %
Distribution expense	62	59	55	3	5 %	4	7 %
Total selling, general and administrative expense	$997	$927	$854	$ 70	8 %	$ 73	9 %

(1) Includes depreciation expense of $35 million, $32 million, and $31 million for the fiscal year ended September 30, 2014, 2013 and 2012, respectively.

2014 vs. 2013

Recorded Music selling, general and administrative expense increased by $70 million, or 8%, to $997 million for the fiscal year ended September 30, 2014 from $927 million for the fiscal year ended September 30, 2013. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense increased to 40% for the fiscal year ended September 30, 2014 from 39% for the fiscal year ended September 30, 2013. Recorded Music selling, general and administrative expense includes $54 million of PLG overhead costs for the fiscal year ended September 30, 2014 compared to $24 million for the fiscal year ended September 30, 2013.

Recorded Music general and administrative expense increased by $38 million, or 8%, to $489 million for the fiscal year ended September 30, 2014 from $451 million for the fiscal year ended September 30, 2013. The increase in Recorded Music general and administrative expense was primarily due to a $28 million increase in PLG restructuring costs, a $7 million increase in PLG Acquisition related professional fees and other integration costs, including transitional employees and PLG overhead costs. These increases were partially offset by a $14 million decrease in variable compensation, a $6 million decrease in share-based compensation expense and a $5 million decrease in severance charges unrelated to the PLG Acquisition. Expressed as a percentage of Recorded Music revenue, Recorded Music general and administrative expense remained flat at 19% for both the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2013.

Recorded Music selling and marketing expense increased by $29 million, or 7%, to $446 million for the fiscal year ended September 30, 2014 from $417 million for the fiscal year ended September 30, 2013. Recorded Music selling and marketing expense increased in line with the increase in revenue and was largely the result of higher variable marketing spending. Expressed as a percentage of Recorded Music revenue, Recorded Music selling and marketing expense remained flat at 18% for both the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2013.

Recorded Music distribution expense increased by $3 million, or 5%, to $62 million for the fiscal year ended September 30, 2014 from $59 million for the fiscal year ended September 30, 2013. Expressed as a percentage of Recorded Music revenue, Recorded Music distribution expense remained flat at 3% for the both fiscal year ended

September 30, 2014 and September 30, 2013.

2013 vs. 2012

Recorded Music selling, general and administrative expense increased by $73 million, or 9%, to $927 million for the fiscal year ended September 30, 2013 from $854 million for the fiscal year ended September 30, 2012. This increase was primarily due to higher general and administrative expense and higher selling and marketing expense. Expressed as a percentage of Recorded Music revenues, selling, general and administrative expense increased to 39% for the fiscal year ended September 30, 2013 from 37% for the fiscal year ended September 30, 2012.

Recorded Music general and administrative expense increased by $37 million, or 9%, to $451 million for the fiscal year ended September 30, 2013 from $414 million for the fiscal year ended September 30, 2012. This increase was primarily due to $8 million of share-based compensation expense, $11 million of a transaction fee under the Management Agreement related to the PLG Acquisition, $22 million of restructuring expense, and a $36 million increase in PLG Acquisition related professional fees and integration costs. This was partially offset by lower variable compensation and $26 million lower severance. The current-year results do not yet reflect all of the expected synergies from the PLG Acquisition, which may not be realized in full.

Recorded Music selling and marketing expense increased by $32 million, or 8%, to $417 million for the fiscal year ended September 30, 2013 from $385 million for the fiscal year ended September 30, 2012. This increase was primarily the result of variable marketing increases related to current-year releases compared to prior-year releases.

OIBDA and Operating income

Recorded Music operating income included the following amounts (in millions):

	For the Fiscal Year Ended September 30,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
OIBDA	$267	$270	$289	$(3)	-1%	$(19)	-7%
Depreciation and amortization	(236)	(178)	(163)	(58)	33%	(15)	9%
Operating income	$31	$92	$126	$(61)	-66%	$(34)	-27%

2014 vs. 2013

Recorded Music OIBDA decreased by $3 million, or 1%, to $267 million for the fiscal year ended September 30, 2014 from $270 million for the fiscal year ended September 30, 2013 primarily as a result of the flow through of higher Recorded Music revenues, higher Recorded Music cost of revenues, and higher Recorded Music selling, general and administrative expense. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA remained flat at 11% for the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2013 mainly due to non-recurring charges related to PLG restructuring and integration costs in both years, as noted above.

Recorded Music operating income decreased by $61 million, or -66%, due to the decrease in OIBDA noted above and the additional amortization expense, primarily relating to amortization of intangible assets acquired from PLG.

2013 vs. 2012

Recorded Music OIBDA decreased by $19 million, or 7%, to $270 million for the fiscal year ended September 30, 2013 from $289 million for the fiscal year ended September 30, 2012. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA decreased to 11% for the fiscal year ended September 30, 2013 from 13% for the fiscal year ended September 30, 2012. Our Recorded Music OIBDA and OIBDA margin decrease was primarily driven by the increase in costs as a percentage of revenue for selling, general and administrative expense.

Recorded Music operating income decreased by $34 million, or 27%, due to the decrease in OIBDA noted above and the additional depreciation and amortization expense, primarily relating to amortization of intangible assets acquired from PLG.

Music Publishing

Revenues

2014 vs. 2013

Music Publishing revenues increased by $14 million, or 3%, to $517 million for the fiscal year ended September 30, 2014 from $503 million for the fiscal year ended September 30, 2013. U.S. Music Publishing revenues were $193 million and $188 million, both 37%, of Music Publishing revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively. International Music Publishing revenues were $324 million and $315 million, both 63%, of Music Publishing revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively.

The increase in Music Publishing revenue was due to increases in performance revenue, synchronization revenue and digital revenue partially offset by a decrease in mechanical revenue. The increase in performance revenue was driven by the timing of a collection society distribution of $9 million related to prior periods. The increase in synchronization revenue was driven by a $3 million increase in commercial income, a $3 million increase in motion picture income, partially offset by a $2 million decrease in television program income. In addition, digital revenue continued to grow primarily due to a $15 million increase in streaming services revenue. The decrease in mechanical revenue was driven by the ongoing transition towards digital product in the music industry. Excluding the favorable impact of foreign currency exchange rates, total Music Publishing revenue increased by $11 million, or 2%.

2013 vs. 2012

Music Publishing revenues decreased by $15 million, or 3%, to $503 million for the fiscal year ended September 30, 2013 from $518 million for the fiscal year ended September 30, 2012. U.S. Music Publishing revenues were $188 million and $198 million, or 37% and 38%, of Music Publishing revenues for the fiscal year ended September 30, 2013 and September 30, 2012, respectively. International Music Publishing revenues were $315 million and $320 million, or 63% and 62%, of Music Publishing revenues for the fiscal year ended September 30, 2013 and September 30, 2012, respectively.

The overall decrease in Music Publishing revenue was driven primarily by the continued decline in mechanical revenue and a decline in synchronization revenue, partially offset by the increase in digital revenue. The decrease in mechanical revenue reflected the impact of the ongoing transition from physical to digital sales in the music industry as well as the decision to exit certain lower-margin deals in the prior period. The decrease in synchronization revenue reflected lower overall demand in the commercial and videogame market. The increase in digital revenue reflected continued growth in digital downloads of $6 million and streaming and subscription services of $10 million. Excluding the unfavorable impact of foreign currency exchange rates, total Music Publishing revenues decreased by $12 million, or 2%.

Cost of revenues

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

	For the Fiscal Year Ended September 30,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
Artist and repertoire costs	$289	$289	$305	$ —	—%	$(16)	-5%
Total cost of revenues	$289	$289	$305	$ —	—%	$(16)	-5%

2014 vs. 2013

Music Publishing cost of revenues remained flat at $289 million for the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2013. Expressed as a percentage of Music Publishing revenues, Music Publishing cost of revenues decreased to 56% for the fiscal year ended September 30, 2014 from 58% for the fiscal year ended September 30, 2013 primarily due to the revenue mix.

2013 vs. 2012

Music Publishing cost of revenues decreased by $16 million, or 5%, to $289 million for the fiscal year ended September 30, 2013 from $305 million for the fiscal year ended September 30, 2012. Expressed as a percentage of Music Publishing revenues, Music Publishing cost of revenues decreased to 58% for the fiscal year ended September 30, 2013 from 59% for the fiscal year ended September 30, 2012 as a result of the shift towards higher margin deals.

Selling, general and administrative expense

Music Publishing selling, general and administrative expenses were comprised of the following amounts (in millions):

	For the Fiscal Year Ended September 30,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
General and administrative expense (1)	$ 67	$ 70	$ 71	$ (3)	-4 %	$ (1)	-1 %
Selling and marketing expense	2	2	2	—	— %	—	— %
Total selling, general and administrative expense	$ 69	$ 72	$ 73	$ (3)	-4 %	$ (1)	-1 %

(1) Includes depreciation expense of $7 million, $6 million, and $6 million for the fiscal year ended September 30, 2014, 2013 and 2012, respectively.

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2014 vs. 2013

Music Publishing selling, general and administrative expense decreased by $3 million, or 4%, to $69 million for the fiscal year ended September 30, 2014 as compared to $72 million for the fiscal year ended September 30, 2013, primarily due to a one-time benefit of $6 million related to the reversal of a previously accrued earnout partially offset by a $1 million increase in depreciation expense and a $1 million increase in professional fees. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense decreased to 13% for the fiscal year ended September 30, 2014 from 14% for the fiscal year ended September 30, 2013.

2013 vs. 2012

Music Publishing selling, general and administrative expense decreased by $1 million, or 1%, to $72 million for the fiscal year ended September 30, 2013 from $73 million for the fiscal year ended September 30, 2012, primarily due to a decrease in legal fees. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense remained flat at 14% for the fiscal year ended September 30, 2013 and the fiscal year ended September 30, 2012.

OIBDA and Operating income

Music Publishing operating income includes the following amounts (in millions):

	For the Fiscal Year Ended September 30,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
OIBDA	$166	$148	$146	$18	12 %	$2	1 %
Depreciation and amortization	(72)	(67)	(67)	(5)	8 %	—	— %
Operating income	$94	$81	$79	$13	16 %	$2	3 %

2014 vs. 2013

Music Publishing OIBDA increased by $18 million, or 12%, to $166 million for the fiscal year ended September 30, 2014 from $148 million for the fiscal year ended September 30, 2013 primarily as a result of the flow through of higher Music Publishing revenue and lower Music Publishing selling, general and administrative expense. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA margin increased to 32% for the fiscal year ended September 30, 2014 from 29% for the fiscal year ended September 30, 2013, reflecting the impact of the reversal of a previously accrued earnout.

Music Publishing operating income increased by $13 million due to the increase in OIBDA noted above offset by the $5 million increase in Music Publishing depreciation and amortization expense.

2013 vs. 2012

Music Publishing OIBDA increased by $2 million, or 1%, to $148 million for the fiscal year ended September 30, 2013 from $146 million for the fiscal year ending September 30, 2012 primarily as a result of the flow through of lower Music Publishing revenue and lower Music Publishing cost of revenue. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA increased to 29% for the fiscal year ended September 30, 2013 from

28% for the fiscal year ended September 30, 2012 primarily due to the shift towards higher-margin deals.

Music Publishing operating income increased by $2 million due to the increase in OIBDA noted above.

Corporate Expenses and Eliminations

2014 vs. 2013

Our OIBDA loss from corporate expenses and eliminations increased by $8 million to $93 million for the fiscal year ended September 30, 2014 from $85 million for the fiscal year ended September 30, 2013. The increase was primarily due to a $12 million increase in facilities cost due to the costs associated with terminating one of our New York office leases and overlap in terms on the lease of our new corporate headquarters with our existing headquarters lease, partially offset by a $2 million decrease in professional fees related to our participation in the sales process and acquisition of PLG.

Our operating loss from corporate expenses and eliminations increased by $8 million to $106 million for the fiscal year ended September 30, 2014 from $98 million for the fiscal year ended September 30, 2013 due to the increase in OIBDA loss noted above.

2013 vs. 2012

Our OIBDA loss from corporate expenses and eliminations increased by $3 million to $85 million for the fiscal year ended September 30, 2013 from $82 million for the fiscal year ended September 30, 2012. The increase was mainly due to higher share-based compensation expense partially offset by lower severance expense in the current year.

Our operating loss from corporate expenses and eliminations increased by $2 million to $98 million for the fiscal year ended September 30, 2013 from $96 million for the fiscal year ended September 30, 2012 due to the increase of $3 million in OIBDA loss noted above offset by a decrease of $1 million in depreciation expense.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition at September 30, 2014

At September 30, 2014, we had $3.030 billion of debt, $157 million of cash and equivalents (net debt of $2.873 billion, defined as total debt less cash and equivalents and short-term investments) and $371 million of 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) and $726 million of Warner Music Group Corp. equity at September 30, 2013. Net debt increased by $161 million primarily as a result of the 2014 Refinancing.

The $355 million decrease in Warner Music Group Corp.'s equity during the fiscal year ended September 30, 2014 was primarily due to our $308 million net loss.

Cash Flows

The following table summarizes our historical cash flows. The financial data for fiscal years ended September 30, 2014, 2013 and 2012 have been derived from our audited financial statements included elsewhere herein.

	For the Fiscal Year Ended September 30,		
	2014	2013	2012
Cash provided by (used in):			
Operating Activities	$130	$159	$209
Investing Activities	(155)	(808)	(58)
Financing Activities	37	511	(3)

Operating Activities

Cash provided by operating activities was $130 million for the fiscal year ended September 30, 2014 compared to $159 million for the fiscal year ended September 30, 2013 and $209 million for the fiscal year ended September 30, 2012. The decrease in results from operating activities in fiscal 2014 compared to fiscal 2013 reflected the increase in OIBDA of $7 million, offset by changes in working capital associated with the operations of the business. Accounts payable was a large driver of the decline in operating cash due to payout of back-ended prior year expenses, and the decline in operating cash was partially offset by deferred revenue which was a source of operating cash due to timing of contractual advances on large digital service deals. The decrease in results from operating activities in fiscal 2013 compared to fiscal 2012 reflected the decrease in our OIBDA driven primarily by higher integration costs and professional fees related to the PLG Acquisition, changes in working capital associated with the operations of the business and the increase in cash paid for interest of $13 million due to the timing of interest payments.

Investing Activities

Cash used in investing activities was $155 million for the fiscal year ended September 30, 2014, compared to $808 million for the fiscal year ended September 30, 2013 and $58 million for the fiscal year ended September 30, 2012.

Cash used in investing activities of $155 million for the fiscal year ended September 30, 2014 consisted of $53 million of net business acquisitions, $26 million to acquire music publishing rights and $76 million of capital expenditures.

The business acquisition payments represent cash paid for new acquisitions as well as contingent consideration on business acquisitions completed in prior years.

Cash used in investing activities of $808 million for the fiscal year ended September 30, 2013 consisted of $737 million, net of cash acquired, for business acquisitions, primarily the acquisition of PLG, $37 million to acquire music publishing rights and $34 million for capital expenditures mainly related to IT.

Cash used in investing activities of $58 million for the fiscal year ended September 30, 2012 consisted of $32 million to acquire music publishing rights, $32 million for capital expenditures primarily related to IT and $6 million, net of cash acquired, for business acquisitions, partially offset by $12 million of proceeds received for the sale of a building.

Financing Activities

Cash provided by financing activities was $37 million for the fiscal year ended September 30, 2014 compared to $511 million for the fiscal year ended September 30, 2013 and cash used in financing activities of $3 million for the fiscal year ended September 30, 2012.

The $37 million of cash provided by financing activities for fiscal year ended September 30, 2014 reflected the $53 million net proceeds from the 2014 Refinancing, which included proceeds from the issuance of $935 million in new notes offset by $765 million in repayment of principal debt, $104 million of premiums and consent fees and $13 million of deferred financing costs. It also included $10 million in amortization payments on the Senior Term Loan Facility, $3 million of repayments on our capital lease obligation and $3 million of distributions to our non-controlling interest holders.

The $511 million of cash provided by financing activities for fiscal year ended September 30, 2013 included the repayment of $1.250 billion of Existing Secured Notes due 2016, proceeds from the issuance of the Existing Senior Secured Notes of $727 million and subsequent repayment of $73 million, proceeds from the Senior Term Loan Facility of $1.412 billion and subsequent repayment of $110 million, $129 million of premiums and consent fees, $62 million of deferred financing costs, and $4 million of distributions to non-controlling interest holders.

The total gross amount of proceeds from the Revolving Credit Facility of $600 million and $136 million during the fiscal years ended September 30, 2014 and 2013, respectively, were an aggregate of all drawdowns during each period. Individual amounts were drawn and repaid in full during the period, with no Revolving Credit Facility balance outstanding at September 30, 2014 or September 30, 2013, mainly to supplement short-term U.S. operating liquidity needs throughout the period. As of September 30, 2014 and September 30, 2013, a significant portion of our operating cash balance resided outside of our U.S. operating companies.

Cash used in financing activities of $3 million for the fiscal year ended September 30, 2012 consisted of distributions to our non-controlling interest holders.

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, 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.

Revolving Credit Facility

On November 1, 2012 (the "2012 Refinancing Closing Date"), Acquisition Corp. entered into a credit agreement dated November 1, 2012, as amended by the amendment dated as of April 23, 2013 (the "Revolving Credit Agreement"), for a senior secured revolving credit facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the "Revolving Credit Facility"). On March 25, 2014, Warner Music Group received lender consent to an amendment (the "Revolving Credit Agreement Amendment") to the credit agreement for its Revolving Credit Facility. The Revolving Credit Agreement Amendment became effective on April 9, 2014. The Revolving Credit Agreement Amendment extends the maturity date of the Revolving Credit Facility to April 1, 2019 and modifies the maximum leverage ratio in certain periods.

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

Interest Rates and Fees

Borrowings under the Revolving Credit Agreement bear interest at the Revolving Borrower’s election at a rate equal to (i) the rate for deposits in the borrowing currency in the London interbank market (adjusted for maximum reserves) for the applicable interest period (“Revolving LIBOR”), plus 2.00% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent as its prime in effect at its principal office in New York City from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) the one-month Revolving LIBOR plus 1.0% per annum, plus, in each case, 1.00% per annum.

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

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

Prepayments

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

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

Ranking

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

Guarantees

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

Covenants, Representations and Warranties

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

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

Events of Default

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

Senior Term Loan Facility

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

General

Acquisition Corp. is the borrower under the Senior Term Loan Facility (the “Term Loan Borrower”). On May 9, 2013, the Term Loan Borrower entered into an amendment to the Senior Term Loan Facility among the Term Loan Borrower, Holdings, the subsidiaries of the Term Loan Borrower party thereto, Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto, providing for the refinancing of the then outstanding term loan and for a $820 million senior secured incremental term loan facility, which was drawn on July 1, 2013. Currently, the Senior Term Loan Facility provides for term loans thereunder (the “Term Loans”) in an amount of up to $1,310 million.

The loans outstanding under the Senior Term Loan Facility mature on July 1, 2020, with a springing maturity date on July 2, 2018 in the event that more than $153 million aggregate principal amount of the Existing Unsecured Notes are outstanding on June 28, 2018 unless, on June 28, 2018, the senior secured indebtedness to EBITDA ratio of the Term Loan Borrower is less than or equal to 3.50 to 1.00. Following the completion of the 2014 Refinancing, the maturity of the Senior Term Loan Facility is July 1, 2020 and the springing maturity date feature has been eliminated.

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

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

Interest Rates and Fees

The loans under the Senior Term Loan Credit Agreement bear interest at Term Loan Borrower's election at a rate equal to: (i) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period ("Term Loan LIBOR"), plus 2.75%, or (ii) the base rate, which will be the highest of (x) the corporate base rate established by the administrative agent as its prime rate in effect at its principal office in New York City from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) one-month Term Loan LIBOR, plus 1.00% per annum, plus, in each case, 1.75% per annum. The loans under the Senior Term Loan Credit Agreement are subject to a Term Loan LIBOR "floor" of 1.00%.

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

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2.0% per annum above the amount that would apply to an alternative base rate loan. Customary fees will be payable in respect of the Senior Term Loan Facility.

Prepayments

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

Guarantee; Security

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

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

Covenants, Representations and Warranties

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

Events of Default

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

Existing Senior Secured Notes

General

On the 2012 Refinancing Closing Date, Acquisition Corp. issued (i) $500 million in aggregate principal amount of its 6.000% Senior Secured Notes due 2021 (the “Dollar Notes”) and (ii) €175 million in aggregate principal amount of its 6.250% Senior Secured Notes due 2021 (the “Euro Notes” and, together with the Dollar Notes, the “Existing Senior Secured Notes”) under the Indenture, dated as of November 1, 2012 (the “Base Indenture”), among the Acquisition Corp., the guarantors party thereto, Credit Suisse AG, as Notes Authorized Agent and Collateral Agent and Wells Fargo Bank, National Association, as Trustee (the “Trustee”), as supplemented by the First Supplemental Indenture, dated as of November 1, 2012 (the “Euro Supplemental Indenture”), among

Acquisition Corp., the guarantors party thereto and the Trustee, in the case of the Euro Notes, and the Second Supplemental Indenture, dated as of November 1, 2012, among Acquisition Corp., the guarantors party thereto and the Trustee, in the case of the Dollar Notes (the "Dollar Supplemental Indenture" and, the Base Indenture, together with the Euro Supplemental Indenture or the Dollar Supplemental Indenture, as applicable, the "Existing Senior Secured Notes Indenture").

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

On June 21, 2013, Acquisition Corp. redeemed $50 million in aggregate principal amount of its outstanding 6.000% Senior Secured Notes due 2021 and €17.5 million in aggregate principal amount of its outstanding 6.250% Senior Secured Notes due 2021.

Ranking

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

Guarantees; Security

The Existing Senior Secured Notes are fully and unconditionally guaranteed on a senior secured basis by each of Acquisition Corp.'s existing direct or indirect wholly owned domestic subsidiaries, except for certain excluded subsidiaries, and by any such subsidiaries that guarantee other indebtedness of Acquisition Corp. in the future. Such subsidiary guarantors are collectively referred to herein as the "subsidiary guarantors," and such subsidiary guarantees are collectively referred to herein as the "subsidiary guarantees." Each subsidiary guarantee ranks senior in right of payment to all existing and future subordinated obligations of such subsidiary guarantor; ranks equally in right of payment with all of such subsidiary guarantor's existing and future senior indebtedness, including such subsidiary guarantor's guarantee of the New Senior Secured Notes, and indebtedness under the Senior Credit Facilities; ranks equally in right of payment to all of such subsidiary guarantor's existing and future secured indebtedness, including such subsidiary guarantor's guarantee of the New Senior Secured Notes, to the extent of the value of the collateral securing the Existing Senior Secured Notes; and is structurally subordinated to all existing and future indebtedness and other liabilities of any non-guarantor subsidiary of such subsidiary guarantor (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors), to the extent of the assets of such subsidiary. Any subsidiary guarantee of the Existing Senior Secured Notes may be released in certain circumstances. The Existing Senior Secured Notes are not guaranteed by Holdings.

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

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

Optional Redemption

Dollar Notes

At any time prior to January 15, 2016, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of Dollar Notes (including the aggregate principal amount of any additional notes constituting Dollar Notes) issued under the Existing Senior Secured Indenture, at its option, at a redemption price equal to 106.000% of the principal amount of the Dollar Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of Holders of Dollar Notes on the relevant record date to receive interest on the relevant interest payment date), with funds in an aggregate amount not exceeding the net cash proceeds of one or more equity offerings by Acquisition Corp. or any contribution to Acquisition Corp.'s common equity capital made with the net cash proceeds of one or more equity offerings by Acquisition Corp.'s direct or indirect parent; provided that (1) at least 50% of the aggregate principal amount of Dollar Notes originally issued under the Existing Senior

Secured Notes Indenture (including the aggregate principal amount of any additional notes constituting Dollar Notes) remains outstanding immediately after the occurrence of such redemption; and (2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such Equity Offering.

The Dollar Notes may be redeemed, in whole or in part, at any time prior to January 15, 2016, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the Dollar Notes redeemed plus the applicable make-whole premium as of, and accrued and unpaid interest thereon, if any, to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On or after January 15, 2016, Acquisition Corp. may redeem all or a part of the Dollar Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon, if any, on the Dollar Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on January 15 of the years indicated below:

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

In addition, during any 12-month period prior to January 15, 2016, Acquisition Corp. will be entitled to redeem up to 10% of the original aggregate principal amount of the Dollar Notes (including the principal amount of any additional notes of the same series) at a redemption price equal to 103.000% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Euro Notes

At any time prior to January 15, 2016, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of Euro Notes (including the aggregate principal amount of any additional notes constituting Euro Notes) issued under the Existing Senior Secured Indenture, at its option, at a redemption price equal to 106.250% of the principal amount of the Euro Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of Euro Notes on the relevant record date to receive interest on the relevant interest payment date), with funds in an aggregate amount not exceeding the net cash proceeds of one or more equity offerings by Acquisition Corp. or any contribution to Acquisition Corp.'s common equity capital made with the net cash proceeds of one or more equity offerings by Acquisition Corp.'s direct or indirect parent; provided that: (1) at least 50% of the aggregate principal amount of Euro Notes originally issued under the Existing Senior Secured Notes Indenture (including the aggregate principal amount of any additional notes constituting Euro Notes) remains outstanding immediately after the occurrence of such redemption; and (2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such Equity Offering.

The Euro Notes may be redeemed, in whole or in part, at any time prior to January 15, 2016, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the Euro Notes redeemed plus the applicable make-whole premium as of, and accrued and unpaid interest thereon, if any, to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date). On or after January 15, 2016, Acquisition Corp. may redeem all or a part of the Euro Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon, if any, on the Euro Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on January 15 of the years indicated below:

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

In addition, during any 12-month period prior to January 15, 2016, Acquisition Corp. will be entitled to redeem up to 10% of the original aggregate principal amount of the Euro Notes (including the principal amount of any additional notes of the same series) at a redemption price equal to 103.000% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Change of Control

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

Covenants

The Existing Senior Secured Notes Indenture contains covenants that, among other things, limit Acquisition Corp.'s ability and the ability of most of its subsidiaries to: incur additional debt or issue certain preferred shares; pay dividends on or make distributions in respect of its capital stock or make investments or other restricted payments; create restrictions on the ability of its restricted subsidiaries to pay dividends to Acquisition Corp. or make certain other intercompany transfers; sell certain assets; create liens securing certain debt; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets.

Events of Default

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

Holdings Notes

General

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

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

Ranking

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

Guarantee

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

Optional Redemption

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

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

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

In addition, at any time (which may be more than once) before October 1, 2015, Holdings may redeem up to 35% of the aggregate principal amount of the Holdings Notes with the net cash proceeds of certain equity offerings at a redemption price of 113.75%, plus accrued and unpaid interest and special interest, if any, to the applicable redemption date; provided that: (1) at least 50% of the aggregate principal amount of Holdings Notes originally issued under the Holdings Notes Indenture remains outstanding immediately after the occurrence of such redemption; and (2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such equity offering.

Change of Control

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

Covenants

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

Events of Default

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

Existing Unsecured Notes

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

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

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

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

New Senior Secured Notes

On April 9, 2014, Acquisition Corp. issued $275 million in aggregate principal amount of its 5.625% Senior Secured Notes due 2022 (the "New Senior Secured Notes") under the Base Indenture, among Acquisition Corp., the guarantors party thereto, Credit Suisse AG, as Notes Authorized Agent and Collateral Agent, and Wells Fargo Bank, National Association, as Trustee (the "Trustee"), as supplemented by the Fourth Supplemental Indenture, dated as of April 9, 2014 (the "New Secured Notes Supplemental Indenture" and, together with the Base Indenture, the "New Secured Notes Indenture"), among the Acquisition Corp., the guarantors party thereto and the Trustee.

Interest on the New Senior Secured Notes will accrue at the rate of 5.625% per annum and will be payable semi-annually in arrears on April 15 and October 15, commencing on October 15, 2014.

Ranking

The New Senior Secured Notes are Acquisition Corp.'s senior secured obligations and are secured on an equal and ratable basis with all existing and future indebtedness secured with the same security arrangements as the New Senior Secured Notes. The New Senior Secured Notes rank senior in right of payment to Acquisition Corp.'s subordinated indebtedness; rank equally in right of payment with all of Acquisition Corp.'s existing and future senior indebtedness, including the New Unsecured Notes (as defined below), Acquisition Corp.'s Existing Senior Secured Notes and indebtedness under Acquisition Corp.'s Senior Credit Facilities and any future senior secured credit facility; are effectively senior to Acquisition Corp.'s unsecured senior indebtedness, including the New Unsecured Notes, to the extent of the value of the collateral securing the New Senior Secured Notes; and are structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of Acquisition Corp.'s non-guarantor subsidiaries (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors (as such term is defined below)).

Guarantees

The New Senior Secured Notes are fully and unconditionally guaranteed on a senior secured basis by each of Acquisition Corp.'s existing direct or indirect wholly-owned domestic restricted subsidiaries and by any such subsidiaries that guarantee obligations of Acquisition Corp. under the Senior Credit Facilities, subject to customary exceptions. Such subsidiary guarantors are collectively referred to herein as the "subsidiary guarantors," and such subsidiary guarantees are collectively referred to herein as the "subsidiary guarantees." Each subsidiary guarantee is a senior secured obligation of such subsidiary guarantor and is secured on an equal and ratable basis with all existing and future obligations of such subsidiary guarantor that are secured with the same security arrangements as the guarantee of the New Senior Secured Notes (including the subsidiary guarantor's guarantee of obligations under the Existing Senior Secured Notes and the Senior Credit Facilities). Each subsidiary guarantee ranks senior in right of payment to all subordinated obligations of the subsidiary guarantor; is effectively senior to the subsidiary guarantor's existing unsecured obligations, including the subsidiary guarantor's guarantee of the New Unsecured Notes, to the extent of the collateral securing such guarantee; ranks equally in right of payment with all of the subsidiary guarantor's existing and future senior obligations, including the subsidiary guarantor's guarantee of the Senior Credit Facilities and any future senior secured credit facility, the Existing Senior Secured Notes and the New Unsecured Notes; and is structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any non-guarantor subsidiary of the subsidiary guarantor (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors). Any subsidiary guarantee of the New Senior Secured Notes may be released in certain circumstances. On May 7, 2014, the Parent issued a guarantee whereby it agreed to fully and unconditionally guarantee the payments of Acquisition Corp. on the New Senior Secured Notes.

Optional Redemption

At any time prior to April 15, 2017, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of New Senior Secured Notes (including the aggregate principal amount of any additional securities constituting New Senior Secured Notes) issued under the New Secured Notes Indenture, at its option, at a redemption price equal to 105.625% of the principal amount of the New Senior Secured Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of New Senior Secured Notes on the relevant record date to receive interest on the relevant interest payment date), with funds in an aggregate amount not exceeding the net cash proceeds of one or more equity offerings by Acquisition Corp. or any contribution to Acquisition Corp.’s common equity capital made with the net cash proceeds of one or more equity offerings by Acquisition Corp.’s direct or indirect parent; provided that: (1) at least 50% of the aggregate principal amount of New Senior Secured Notes originally issued under the New Secured Notes Indenture (including the aggregate principal amount of any additional securities constituting New Senior Secured Notes issued under the New Secured Notes Indenture) remains outstanding immediately after the occurrence of such redemption; and (2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such equity offering.

The New Senior Secured Notes may be redeemed, in whole or in part, at any time prior to April 15, 2017, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the New Senior Secured Notes redeemed plus the applicable make-whole premium as of, and accrued and unpaid interest thereon, if any, to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On or after April 15, 2017, Acquisition Corp. may redeem all or a part of the New Senior Secured Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon, if any, on the New Senior Secured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on April 15 of the years indicated below:

Year	Percentage	
2017	104.219	%
2018	102.813	%
2019	101.406	%
2020 and thereafter	100.000	%

In addition, during any 12-month period prior to April 15, 2017, Acquisition Corp. will be entitled to redeem up to 10% of the original aggregate principal amount of the New Senior Secured Notes (including the principal amount of any additional securities of the same series) at a redemption price equal to 103.000% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Change of Control

Upon the occurrence of a change of control, which is defined in the Base Indenture, each holder of the New Senior Secured Notes has the right to require Acquisition Corp. to repurchase some or all of such holder’s New Senior Secured Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

Covenants

The New Secured Notes Indenture contains covenants limiting, among other things, Acquisition Corp.'s ability and the ability of most of its subsidiaries to: incur additional indebtedness or issue certain preferred shares; pay dividends on or make distributions in respect of its capital stock or make investments or other restricted payments; create restrictions on the ability of its restricted subsidiaries to pay dividends to it or make certain other intercompany transfers; sell certain assets; create liens; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; and enter into certain transactions with its affiliates.

Events of Default

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

New Unsecured Notes

On April 9, 2014, Acquisition Corp. issued $660 million in aggregate principal amount of its 6.750% Senior Notes due 2022 (the “New Unsecured Notes”) under the Indenture, dated as of April 9, 2014 (the “New Unsecured Notes Base Indenture”), among Acquisition Corp., the guarantors party thereto and the Trustee, as supplemented by the First Supplemental Indenture, dated as of April 9, 2014 (the “New Unsecured Notes Supplemental Indenture” and, together with the New Unsecured Notes Base Indenture, the “New Unsecured Notes Indenture”), among the Acquisition Corp., the guarantors party thereto and the Trustee.

Interest on the New Unsecured Notes will accrue at the rate of 6.750% per annum and will be payable semi-annually in arrears on April 15 and October 15, commencing on October 15, 2014.

Ranking

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

Guarantees

The New Unsecured Notes are fully and unconditionally guaranteed on a senior unsecured basis by the subsidiary guarantors. Each subsidiary guarantee is a senior unsecured obligation of such subsidiary guarantor. Each subsidiary guarantee ranks senior in right of payment to all subordinated obligations of the subsidiary guarantor; is effectively subordinated to the subsidiary guarantor’s existing secured obligations, including the subsidiary guarantor’s guarantee of the Existing Senior Secured Notes, the New Senior Secured Notes and obligations under the Senior Credit Facilities and any future senior secured credit facility, to the extent of the collateral securing such guarantee; ranks equally in right of payment with all of the subsidiary guarantor’s existing and future senior obligations, including the subsidiary guarantor’s guarantee of the Existing Senior Secured Notes, the New Senior Secured Notes and the Senior Credit Facilities and any future senior secured credit facility; and is structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any non-guarantor subsidiary of the subsidiary guarantor (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors). Any subsidiary guarantee of the New Unsecured Notes may be released in certain circumstances. On May 7, 2014, the Parent issued a guarantee whereby it agreed to fully and unconditionally guarantee the payments of Acquisition Corp. on the New Senior Unsecured Notes.

Optional Redemption

At any time prior to April 15, 2017, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of New Unsecured Notes (including the aggregate principal amount of any additional securities constituting New Unsecured Notes) issued under the New Unsecured Notes Indenture, at its option, at a redemption price equal to 106.750% of the principal amount of the New Unsecured Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of New Unsecured Notes on the relevant record date to receive interest on the relevant interest payment date), with funds in an aggregate amount not exceeding the net cash proceeds of one or more equity offerings by Acquisition Corp. or any contribution to Acquisition Corp.'s common equity capital made with the net cash proceeds of one or more equity offerings by Acquisition Corp.'s direct or indirect parent; provided that: (1) at least 50% of the aggregate principal amount of New Unsecured Notes originally issued under the New Unsecured Notes Indenture (including the aggregate principal amount of any additional securities constituting New Unsecured Notes issued under the New Unsecured Notes Indenture) remains outstanding immediately after the occurrence of such redemption; and (2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such equity offering.

The New Unsecured Notes may be redeemed, in whole or in part, at any time prior to April 15, 2017, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the New Unsecured Notes redeemed plus the applicable make-whole premium as of, and accrued and unpaid interest thereon, if any, to, the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On or after April 15, 2017, Acquisition Corp. may redeem all or a part of the New Unsecured Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest thereon, if any, on the New Unsecured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on April 15 of the years indicated below:

Year	Percentage
2017	105.063 %
2018	103.375 %
2019	101.688 %
2020 and thereafter	100.000 %

Change of Control

Upon the occurrence of a change of control, which is defined in the New Unsecured Notes Base Indenture, each holder of the New Unsecured Notes has the right to require Acquisition Corp. to repurchase some or all of such holder's New Unsecured Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

Covenants

The New Unsecured Notes Indenture contains covenants limiting, among other things, Acquisition Corp.'s ability and the ability of most of its subsidiaries to: incur additional indebtedness or issue certain preferred shares; pay dividends on or make distributions in respect of its capital stock or make investments or other restricted payments; create restrictions on the ability of its restricted subsidiaries to pay dividends to it or make certain other intercompany transfers; sell certain assets; create liens; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; and enter into certain transactions with its affiliates.

Events of Default

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

Existing Debt as of September 30, 2014

As of September 30, 2014, our long-term debt, including the current portion, was as follows (in millions):

Revolving Credit Facility—Acquisition Corp. (a)	$—
Senior Term Loan Facility due 2020—Acquisition Corp. (b)	1,294
5.625% Senior Secured Notes due 2022—Acquisition Corp.	275
6.00% Senior Secured Notes due 2021—Acquisition Corp.	450
6.25% Senior Secured Notes due 2021—Acquisition Corp. (c)	201
6.75% Senior Notes due 2022—Acquisition Corp.	660
13.75% Senior Notes due 2019—Holdings	150
Total long-term debt, including the current portion	$3,030

(a) Reflects $150 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $11 million at September 30, 2014. There were no loans outstanding under the Revolving Credit Facility at September 30, 2014.
(b) Principal amount of $1.300 billion less unamortized discount of $6 million at September 30, 2014. Of this amount, $13 million, representing the scheduled amortization of the Term Loan, 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 September 30, 2014.

Covenant Compliance

The Company was in compliance with its covenants under its outstanding notes, Revolving Credit Facility and Senior Term Loan Facility as of September 30, 2014.

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

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

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

The following is a reconciliation of net loss, which is a U.S. GAAP measure of our operating results, to Consolidated EBITDA as defined, and the calculation of the Consolidated Funded Indebtedness to Consolidated EBITDA ratio, which we refer to as the Leverage Ratio, under our Revolving Credit Agreement for the most recently ended four fiscal quarters, or twelve months ended September 30, 2014. The terms and related calculations are defined in the Revolving Credit Agreement. All amounts in the reconciliation below reflect WMG Acquisition Corp. (in millions, except ratios):

	Twelve Months Ended September 30, 2014
Net Loss	$ (286)

Income tax expense	(26)
Interest expense, net	181
Depreciation and amortization	321
Restructuring costs (a)	57
Net hedging and foreign exchange losses (b)	5
Management fees (c)	8
Transaction costs (d)	62
Business optimization expenses (e)	8
Loss on extinguishment of debt (f)	141
Equity based compensation expense (g)	8
Other non-cash charges (h)	22
Gain on sale of marketable securities	(2)
Loss on equity method investments	1
Pro forma impact of specified transactions (i)	32
Pro Forma Consolidated EBITDA	$ 532
Consolidated Funded Indebtedness (j)	$ 2,829
Leverage Ratio (k)	5.32x

(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 related to the Company's participation in the EMI sales process, including the subsequent regulatory review, as well as integration and other nonrecurring costs related to the PLG Acquisition.
(e) Reflects primarily costs associated with IT systems updates.
(f) Reflects loss incurred on the early extinguishment of our debt incurred as part of the 2014 Refinancing.
(g) Reflects compensation expense related to the Warner Music Group Corp. Senior Management Free Cash Flow Plan.
(h) Reflects non-cash charges not included in other items above, including but not limited to impairment, loss on contract terminations, and purchase accounting charges.
(i) Reflects the $28 million impact for the PLG Acquisition and the $4 million impact for the Gold Typhoon Group acquisition, as if the specified transactions had occurred on the first day of the September 30, 2014 measurement period. This amount does not include the actual results related to PLG and Gold Typhoon Group already included in the Consolidated Statements of Operations for the twelve months ended September 30, 2014. Pro forma savings reflected in the table above related to PLG reflect a portion, approximately $25 million, of previously announced targeted savings following the PLG Acquisition of approximately $70 million (less already achieved savings of approximately $45 million) and other synergies resulting from or related to the PLG Acquisition.
(j) Reflects the principal balance of external debt at Acquisition Corp of approximately $2.9 billion, plus the annualized daily revolver borrowings of $63 million, plus contractual obligations of deferred purchase price of $9 million, plus contingent consideration related to acquisitions of $3 million, plus the implied principal component under capital lease obligation of $18 million, less cash up to $150 million.
(k) Reflects the ratio of Consolidated Funded Indebtedness to Consolidated EBITDA as of the twelve months ended September 30, 2014. This is calculated net of cash and equivalents of the Company as of September 30, 2014 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 5.75x as of the quarter ending September 30, 2014. The maximum leverage ratio permitted will be 5.75x as of the end of each fiscal quarter of fiscal 2015. 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 Senior Term Loan Facility. However, our ability to continue to fund these items and to reduce debt may be affected by general economic, financial, competitive, legislative and regulatory factors, as well as other industry-specific factors such as the ability to control music piracy and the continued transition from physical to digital sales in the recorded music business. We or any of our affiliates may also, from time to time depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to prepay outstanding debt or repurchase our or Holdings' outstanding debt securities open market purchases, privately negotiated purchases or otherwise. The amounts involved in any such transactions, individually or in the aggregate, may be material and may be funded from available cash or from additional borrowings. In addition, we may from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to refinance our Senior Credit Facilities or our, or Holdings', outstanding debt securities with existing cash and/or with funds provided from additional borrowings.

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Contractual and Other Obligations

Firm Commitments

The following table summarizes the Company's aggregate contractual obligations at September 30, 2014, and the estimated timing and effect that such obligations are expected to have on the Company's liquidity and cash flow in future periods.

Firm Commitments and Outstanding Debt	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
	(in millions)				
Secured Notes (1)	$—	$—	$—	$926	$926
Interest on Secured Notes (1)	55	110	110	106	381
Unsecured WMG Notes (1)	—	—	—	660	660
Interest on Unsecured WMG Notes (1)	44	89	89	134	356
Holdings Notes (1)	—	—	—	150	150
Interest on Holdings Notes (1)	21	41	41	10	113
Senior Term Loan Facility (1)	13	26	26	1,235	1,300
Interest on Senior Term Loan Facility (1)	49	97	95	51	292
Operating leases (2)	50	91	77	255	473
Capital leases (3)	3	1	—	—	4
Artist, songwriter and co-publisher commitments (4)	190	*	*	*	190
Management Fees (5)	9	18	18	**	45
Minimum funding commitments to investees and other obligations (6)	42	1	—	—	43
Total firm commitments and outstanding debt	$476	$474	$456	$3,527	$4,933

The following is a description of our firmly committed contractual obligations at September 30, 2014:

(1) Outstanding debt obligations consist of the Senior Term Loan Facility, Dollar Notes, Euro Notes, New Senior Secured Notes, New Unsecured Notes and the Holdings Notes. These obligations have been presented based on the principal amounts due, current and long term as of September 30, 2014. Amounts do not include any fair value adjustments, bond premiums or discounts.

(2) Operating lease obligations primarily relate to the minimum lease rental obligations for our real estate and operating equipment in various locations around the world. These obligations have been presented without the benefit of $11 million of total sublease income expected to be received under non-cancelable agreements. These obligations have also been presented without the commitments under the Restructuring Plan as set forth in Note 10 to the Consolidated Financial Statements.

(3) See Note 13 to the Consolidated Financial Statements.

(4) The Company routinely enters into long-term commitments with artists, songwriters and co-publishers for the future delivery of music product. Such commitments generally become due only upon delivery and Company acceptance of albums from the artists or future musical compositions by songwriters and co-publishers. Additionally, such commitments are typically cancelable at the Company's discretion, generally without penalty.

Based on contractual obligations and the Company's expected release schedule, aggregate firm commitments to such talent for the next 12 month period approximates $190 million at September 30, 2014.

(5) Pursuant to the Management Agreement, the Company, or one or more of its subsidiaries, will pay Access an 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 and (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. The Company or one or more of its subsidiaries will also pay Access a specified transaction fee for certain types of transactions completed by Holdings or one or more of its subsidiaries, plus expenses.

(6) We have minimum funding commitments and other related obligations to support the operations of various investments, which are reflected in the table above. Other obligations include $38 million of a final working capital adjustment related to the PLG Acquisition as described in Note 4. Other long-term liabilities include $27 million and $30 million of liabilities for uncertain tax positions as of September 30, 2014 and September 30, 2013, respectively. We are unable to accurately predict when these amounts will be realized or released.

* Because the timing of payment, and even whether payment occurs, is dependent upon the timing of delivery of albums and musical compositions from talent, the timing and amount of payment of these commitments as presented in the above summary can vary significantly.

** Per the above explanation, the minimum annual fee will be approximately $9 million per year. This amount may vary based on the terms described above; and will continue as long as the Management Agreement remains unmodified and effective.

CRITICAL ACCOUNTING POLICIES

The SEC's Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR 60"), suggests companies provide additional disclosure and commentary on those accounting policies considered most critical. FRR 60 considers an accounting policy to be critical if it is important to our financial condition and results, and requires significant judgment and estimates on the part of management in our application. We believe the following list represents critical accounting policies as contemplated by FRR 60. For a summary of all of our significant accounting policies, see Note 2 to our audited Consolidated Financial Statements included elsewhere herein.

Business Combinations

We account for our business acquisitions under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, Business Combination ("ASC 805") guidance for business combinations. The total cost of acquisitions is allocated to the underlying identifiable net assets based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives and market multiples, among other items. If our assumptions or estimates in the fair value calculation change, the fair value of our acquired intangible assets could change; this would also change the value of our goodwill.

Accounting for Goodwill and Other Intangible Assets

We account for our goodwill and other indefinite-lived intangible assets as required by FASB Accounting Standards Codification ("ASC") Topic 350, Intangibles—Goodwill and other ("ASC 350"). Under ASC 350, we do not amortize goodwill, including the goodwill included in the carrying value of investments accounted for using the equity method of accounting, and certain other intangible assets deemed to have an indefinite useful life. ASC 350 requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques on an annual basis and when events occur that may suggest that the fair value of such assets cannot support the carrying value. ASC 350 gives an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the step one of the two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its net book value (or carrying amount), including goodwill.

In performing the first step, management determines the fair value of its reporting units using a combination of a discounted cash flow ("DCF") analysis and a market-based approach. Determining fair value requires significant judgment concerning the assumptions used in the valuation model, including discount rates, the amount and timing of expected future cash flows and, growth rates, as well as relevant comparable company earnings multiples for the market-based approach including the determination of whether a premium or discount should be applied to those comparables. The cash flows employed in the DCF analysis are based on management's most recent budgets and business plans and when applicable, various growth rates have been assumed for years beyond the current business plan periods. Any forecast contains a degree of uncertainty and modifications to these cash flows could significantly increase or decrease the fair value of a reporting unit. For example, if revenue from sales of physical products continues to decline and the revenue from sales of digital products does not continue to grow as expected and we are unable to adjust costs accordingly, it could have a negative impact on future impairment tests. In determining which discount rate to utilize, management determines the appropriate weighted average cost of capital (“WACC”) for each reporting unit. Management considers many factors in selecting a WACC, including the market view of risk for each individual reporting unit, the appropriate capital structure and the appropriate borrowing rates for each reporting unit. The selection of a WACC is subjective and modification to this rate could significantly increase or decrease the fair value of a reporting unit.

If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit’s goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit’s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

As of September 30, 2014, we had recorded goodwill in the amount of $1.661 billion, including $1.197 billion and $464 million for Recorded Music and Music Publishing, respectively, primarily related to the Merger and PLG Acquisition. We test our goodwill and other indefinite-lived intangible assets for impairment on an annual basis in the fourth quarter of each fiscal year as of July 1. The performance of our fiscal 2014 impairment analysis did not result in an impairment of the Company's goodwill and other indefinite-lived intangible assets. The discount rates utilized in the fiscal 2014 analysis ranged from 7% to 13% while the terminal growth rates used in the DCF analysis ranged from 1% to 2%. The fair values of all our reporting units were in excess of their carrying value as of our annual impairment test. The fair values of our International Recorded Music and Music Publishing reporting units were close to their carrying values and were 4% and 6% in excess of their carrying values, respectively at September 30, 2014. Our U.S. Recorded Music reporting unit was 133% in excess of its carrying value at September 30, 2014.

If our assumptions or estimates in the fair value calculation change, we could incur impairment charges in future periods. For example, if the discount rates or terminal growth rates utilized in our fiscal 2014 annual impairment testing increased or decreased, respectively, by approximately 50-150 basis points, the estimated fair value of our Music Publishing and International Recorded Music reporting unit would have fallen below their respective carrying values. If our growth assumptions in the streaming business do not occur, they could have a negative effect on our estimated fair values. For example, if the streaming business growth assumptions decreased by approximately 50-150 basis points, the estimated fair value of our International Recorded Music reporting unit would have fallen below its carrying value.

The impairment test for other intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using a DCF analysis. Common among such approaches is the "relief from royalty" methodology, which is used in estimating the fair value of the Company's trademarks. Discount rate assumptions are based on an assessment of the risk inherent in the projected future cash flows generated by the respective intangible assets. Also subject to judgment are assumptions about royalty rates, which are based on the estimated rates at which similar trademarks are being licensed in the marketplace.

See Note 6 to the Consolidated Financial Statements for a further discussion of our goodwill and intangible assets.

Revenue and Cost Recognition

Sales Returns and Uncollectible Accounts

In accordance with practice in the recorded music industry and as customary in many territories, certain products (such as CDs and DVDs) are sold to customers with the right to return unsold items. Under FASB ASC Topic 605, Revenue Recognition, revenues from such sales are recognized when the products are shipped based on gross sales less a provision for future estimated returns.

In determining the estimate of physical product sales that will be returned, management analyzes vendor sales of product historical returns trend, current economic conditions, changes in customer demand and commercial acceptance of our products. Based on this information, management reserves a percentage of each dollar of physical product sales that provide the customer with the right of return.

Similarly, management evaluates accounts receivables to determine if they will ultimately be collected. In performing this evaluation, significant judgments and estimates are involved, including an analysis of specific risks on a customer-by-customer basis for larger accounts and customers, and a receivables aging analysis that determines the percent that has historically been uncollected by aged category. Based on this information, management provides a reserve for the estimated amounts believed to be uncollectible.

Based on management's analysis of sales returns and uncollectible accounts, reserves totaling $65 million and $55 million were established at September 30, 2014 and September 30, 2013, respectively. The ratio of our receivable allowances to gross accounts receivables was 15% at September 30, 2014 and 10% at September 30, 2013.

Gross Versus Net Revenue Classification

In the normal course of business, we act as an intermediary or agent with respect to certain payments received from third parties. For example, we distribute music product on behalf of third-party record labels.

The accounting issue encountered in these arrangements is whether we should report revenue based on the "gross" amount billed to the customer or on the "net" amount received from the customer after participation and other royalties paid to third parties. To the extent revenues are recorded gross (in the full amount billed), any participations and royalties paid to third parties are recorded as expenses so that the net amount (gross revenues, less expenses) flows through operating income. Accordingly, the impact on operating income is the same, whether we record the revenue on a gross basis or net basis (less related participations and royalties).

Determining whether revenue should be reported gross or net is based on an assessment of whether we are acting as the "principal" in a transaction or acting as an "agent" in the transaction. To the extent we are acting as a principal in a transaction, we report as revenue the payments received on a gross basis. To the extent we are acting as an agent in a transaction, we report as revenue the payments received less participations and royalties paid to third parties, i.e., on a net basis. The determination of whether we are serving as principal or agent in a transaction is judgmental in nature and based on an evaluation of the terms of an arrangement.

In determining whether we serve as principal or agent in these arrangements, we follow the guidance in FASB ASC Subtopic 605-45, Principal Agent Considerations ("ASC 605-45"). Pursuant to such guidance, we serve as the principal in transactions where we have the substantial risks and rewards of ownership. The indicators that we have substantial risks and rewards of ownership are as follows:

· we are the supplier of the products or services to the customer;
· we have latitude in establishing prices;
· we have the contractual relationship with the ultimate customer;
· we modify and service the product purchased to meet the ultimate customer specifications;
· we have discretion in supplier selection; and
· we have credit risk.

Conversely, pursuant to ASC 605-45, we serve as agent in arrangements where we do not have substantial risks and rewards of ownership. The indicators that we do not have substantial risks and rewards of ownership are as follows:

the supplier (not the Company) is responsible for providing the product or service to the customer;
the supplier (not the Company) has latitude in establishing prices;
the amount we earn is fixed;
the supplier (not the Company) has credit risk; and
the supplier (not the Company) has general inventory risk for a product before it is sold.

Based on the above criteria and for the more significant transactions that we have evaluated, we record the distribution of product on behalf of third-party record labels on a gross basis, subject to the terms of the contract. Recorded music compilations distributed by other record companies where we have a right to participate in the profits are recorded on a net basis.

Accounting for Royalty Advances

We regularly commit to and pay royalty advances to our recording artists and songwriters in respect of future sales. We account for these advances under the related guidance in FASB ASC Topic 928, Entertainment—Music ("ASC 928"). Under ASC 928, we capitalize as assets certain advances that we believe are recoverable from future royalties to be earned by the recording artist or songwriter. Advances vary in both amount and expected life based on the underlying recording artist or songwriter. Advances to recording artists or songwriters with a history of successful commercial acceptability will typically be larger than advances to a newer or unproven recording artist or songwriter. In addition, in most cases these advances represent a multi-album release or multi-song obligation and the number of albums releases and songs will vary by recording artist or songwriter.

Management's decision to capitalize an advance to a recording artist or songwriter as an asset requires significant judgment as to the recoverability of the advance. The recoverability is assessed upon initial commitment of the advance based upon management's forecast of anticipated revenue from the sale of future and existing albums or songs. In determining whether the advance is recoverable, management evaluates the current and past popularity of the recording artist or songwriter, the sales history of the recording artist or songwriter, the initial or expected commercial acceptability of the product, the current and past popularity of the genre of music that the product is designed to appeal to, and other relevant factors. Based upon this information, management expenses the portion of any advance that it believes is not recoverable. In most cases, advances to recording artists or songwriters without a history of success and evidence of current or past popularity will be expensed immediately. Advances are individually assessed for recoverability continuously and at minimum on a quarterly basis. As part of the ongoing assessment of recoverability, we monitor the projection of future sales based on the current environment, the recording artist's or songwriter's ability to meet their contractual obligations as well as our intent to support future album releases or songs from the recording artist or songwriter. To the extent that a portion of an outstanding advance is no longer deemed recoverable, that amount will be expensed in the period the determination is made.

We had $292 million and $266 million of advances in our balance sheet at September 30, 2014 and September 30, 2013, respectively. We believe such advances are recoverable through future royalties to be earned by the applicable recording artists and songwriters.

Accounting for Income Taxes

As part of the process of preparing the Consolidated Financial Statements, we are required to estimate income taxes payable in each of the jurisdictions in which we operate. This process involves estimating the actual current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. FASB ASC Topic 740, Income Taxes (“ASC 740”), requires a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. In circumstances where there is sufficient negative evidence, establishment of a valuation allowance must be considered. We believe that cumulative losses in the most recent three-year period generally represent sufficient negative evidence to consider a valuation allowance under the provisions of ASC 740. As a result, we determined that certain of our deferred tax assets required the establishment of a valuation allowance.

The realization of the remaining deferred tax assets is primarily dependent on forecasted future taxable income. Any reduction in estimated forecasted future taxable income may require that we record additional valuation allowances against our deferred tax assets on which a valuation allowance has not previously been established. The valuation allowance that has been established will be maintained until there is sufficient positive evidence to conclude that it is more likely than not that such assets will be realized. An ongoing pattern of profitability will generally be considered as sufficient positive evidence. Our income tax expense recorded in the future may be reduced to the extent of offsetting decreases in our valuation allowance. The establishment and reversal of valuation allowances could have a significant negative or positive impact on our future earnings.

From time to time, the Company engages in transactions in which the tax consequences may be subject to uncertainty. Significant judgment is required in assessing and estimating the tax consequences of these transactions. The Company prepares and files tax returns based on its interpretation of tax laws and regulations. In the normal course of business, the Company’s tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. In determining the Company’s tax provision for financial reporting purposes, the Company establishes a reserve for uncertain tax positions unless such positions are determined to be more likely than not of being sustained upon examination based on their technical merits. There is considerable judgment involved in determining whether positions taken on the Company’s tax returns are more likely than not of being sustained.

Accounting for Share-based Compensation

Share-based compensation represents compensation payment for which the amounts are based on the fair market value of the Company’s shares. The Company’s Senior Management Long Term Incentive Plan is classified as a liability rather than equity under ASC 718. Liability classified share-based compensation costs are measured at fair value each reporting date until settlement. Because it is not practical for the Company to estimate the volatility of its share price needed to use the fair value approach since our stock is not currently publically traded, the Company has made a policy election that whenever share-based payment awards are required to be measured as a liability, the Company will use the intrinsic value method to measure the costs. Under the intrinsic value method, the Company obtains a valuation of our presumed stock price at least annually (or more frequently for significant changes in the business) and re-measures the related awards using this new price, recognizing compensation costs for the difference between the existing price and new price.

Determining fair value requires significant judgment concerning the assumptions used in the valuation model, including discount rates, the amount and timing of expected future cash flows and, growth rates, as well as relevant comparable company earnings multiples for the market-based approach including the determination of whether a premium or discount should be applied to those comparables. The cash flows employed in the DCF analysis are based on management's most recent budgets and business plans and when applicable, various growth rates have been assumed for years beyond the current business plan periods. Any forecast contains a degree of uncertainty and modifications to these cash flows could significantly increase or decrease the fair value of the presumed share price. For example, if revenue from sales of physical products continues to decline and the revenue from sales of digital products does not continue to grow as expected and we are unable to adjust costs accordingly, it could have a negative impact on future pricing. In determining which discount rate to utilize, management determines the appropriate weighted average cost of capital ("WACC") for the Company. Management considers many factors in selecting a WACC, including the market view of risk, the appropriate capital structure and the appropriate borrowing rates for the Company. The selection of a WACC is subjective and modification to this rate could significantly increase or decrease the fair value of our presumed share price.

New Accounting Principles

In addition to the critical accounting policies discussed above, we adopted several new accounting policies during the past three years. None of these new accounting principles had a material effect on our audited financial statements. See Note 2 to our audited Consolidated Financial Statements included elsewhere herein for a complete summary of all our significant accounting policies.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As discussed in Note 14 to our audited Consolidated Financial Statements the Company is exposed to market risk arising from changes in market rates and prices, including movements in foreign currency exchange rates and interest rates. As of September 30, 2014, other than as described below, there have been no material changes to the Company's exposure to market risk since September 30, 2013.

Foreign Currency Risk

We have transactional exposure to changes in foreign currency exchange rates relative to the U.S. dollar due to the global scope of our operations. We may at times choose to 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 September 30, 2014, the Company had outstanding hedge contracts for the sale of $7 million of foreign currencies at fixed rates. Subsequent to September 30, 2014, certain of our foreign exchange contracts expired and were renewed with new foreign exchange contracts with similar features.

The fair value of foreign exchange contracts is subject to changes in foreign currency exchange rates. For the purpose of assessing the specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments. For foreign exchange forward contracts outstanding at September 30, 2014, assuming a hypothetical 10% depreciation of the U.S. dollar against foreign currencies from prevailing foreign currency exchange rates and assuming no change in interest rates, the fair value of the foreign exchange forward contracts would have decreased by $1 million. Because our foreign exchange contracts are entered into for hedging purposes, these losses would be largely offset by gains on the underlying transactions.

Interest Rate Risk

We had $3.036 billion of principal debt outstanding at September 30, 2014, of which $1.300 billion was variable rate debt and $1.736 billion was fixed rate debt. As such, we are exposed to changes in interest rates. At September 30, 2014, 57% of the Company's debt was at a fixed rate. In addition, at September 30, 2014, all of our floating rate debt under our Senior Term Loan Facility was subject to a LIBOR floor of 1.0%, which is in excess of the current LIBOR rate. The LIBOR floor has effectively turned these LIBOR loans into fixed rate debt until such time as the LIBOR rate moves higher than the floor.

Based on the level of interest rates prevailing at September 30, 2014, the fair value of the fixed-rate and variable rate debt was approximately $3.026 billion. Further, based on the amount of its fixed-rate debt, a 25 basis point increase or decrease in the level of interest rates would decrease or increase the fair value of the fixed-rate debt by approximately $19 million, respectively. Due to the LIBOR floor of 1%, a 25 basis point increase or decrease in the level of interest rates would have no impact on the fair value of the Company's variable rate debt. This potential increase or decrease is based on the simplified assumption that the level of fixed-rate debt remains constant with an immediate across the board increase or decrease in the level of interest rates with no subsequent changes in rates for the remainder of the period.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
WARNER MUSIC GROUP CORP.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Contents

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER

FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the U.S. Securities Exchange Act of 1934, as amended. Management designed our internal control systems in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Our internal control over financial reporting includes 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 our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors 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 internal control systems include the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified and are augmented by written policies, an organizational structure providing for division of responsibilities, careful selection and training of qualified financial personnel and a program of internal audits.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework). Based on its evaluation, our management concluded that our internal control over financial reporting was effective as of September 30, 2014.

Report of Independent Registered Public Accounting Firm

The Board of Directors of Warner Music Group Corp.

We have audited the accompanying consolidated balance sheets of Warner Music Group Corp. as of September 30, 2014 and 2013, and the related consolidated statements of operations, comprehensive loss, equity (deficit) and cash flows for each of the three years in the period ended September 30, 2014. Our audits also included the Supplementary Information and Financial Statement Schedule II listed in the index at Item 15(a). These financial statements, supplementary information and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements, supplementary information and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company’s internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Warner Music Group Corp. at September 30, 2014 and 2013, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 30, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related Supplementary Information and Financial Statement Schedule II, when considered in relation to the basic financial statements as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

New York, New York

December 11, 2014

Warner Music Group Corp.

Consolidated Balance Sheets

	September 30, 2014	September 30, 2013
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$157	$ 155
Accounts receivable, net of allowances of $65 million and $55 million	383	511
Inventories	39	33
Royalty advances expected to be recouped within one year	102	93
Deferred tax assets	46	43
Prepaid and other current assets	55	59
Total current assets	782	894
Royalty advances expected to be recouped after one year	190	173
Property, plant and equipment, net	227	180
Goodwill	1,661	1,668
Intangible assets subject to amortization, net	2,884	3,107
Intangible assets not subject to amortization	120	120
Other assets	90	110
Total assets	$5,954	$ 6,252
Liabilities and Equity		
Current liabilities:		
Accounts payable	$215	$ 280
Accrued royalties	1,132	1,147
Accrued liabilities	243	308
Accrued interest	60	75
Deferred revenue	219	139
Current portion of long-term debt	13	13
Other current liabilities	3	25
Total current liabilities	1,885	1,987
Long-term debt	3,017	2,854
Deferred tax liabilities, net	383	439
Other noncurrent liabilities	279	229
Total liabilities	$5,564	$ 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	(649)	(341)
Accumulated other comprehensive loss, net	(108)	(61)
Total Warner Music Group Corp. equity	371	726
Noncontrolling interest	19	17
Total equity	390	743

Total liabilities and equity	$5,954	$ 6,252

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Operations

	Fiscal Year Ended September 30, 2014	Fiscal Year Ended September 30, 2013	Fiscal Year Ended September 30, 2012
	(in millions)		
Revenues	$3,027	$ 2,871	$ 2,780
Costs and expenses:			
Cost of revenue	(1,570)	(1,492)	(1,455)
Selling, general and administrative expenses (a)	(1,172)	(1,097)	(1,023)
Amortization expense	(266)	(207)	(193)
Total costs and expenses	(3,008)	(2,796)	(2,671)
Operating income	19	75	109
Loss on extinguishment of debt	(141)	(85)	—
Interest expense, net	(203)	(203)	(225)
Other (expense) income	(4)	(12)	8
Loss before income taxes	(329)	(225)	(108)
Income tax benefit (expense)	26	31	(1)
Net loss	(303)	(194)	(109)
Less: Income attributable to noncontrolling interest	(5)	(4)	(3)
Net loss attributable to Warner Music Group Corp.	$(308)	$ (198)	$ (112)
(a) Includes depreciation expense of:	$(55)	$ (51)	$ (51)

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Comprehensive Loss

	Fiscal Year Ended September 30, 2014	Fiscal Year Ended September 30, 2013	Fiscal Year Ended September 30, 2012
	(in millions)		
Net loss	$ (303)	$ (194)	$ (109)
Other comprehensive loss, net of tax			
Foreign currency adjustment	(41)	(3)	(19)
Minimum pension liability	(6)	2	(7)
Deferred losses on derivative financial instruments	—	(1)	—
Other comprehensive loss, net of tax	(47)	(2)	(26)
Total comprehensive loss	(350)	(196)	(135)
Less: Income attributable to noncontrolling interest	(5)	(4)	(3)
Comprehensive loss attributable to Warner Music Group Corp.	$ (355)	$ (200)	$ (138)

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Cash Flows

	Fiscal Year Ended September 30, 2014	Fiscal Year Ended September 30, 2013	Fiscal Year Ended September 30, 2012
	(in millions)		
Cash flows from operating activities			
Net loss	$(303)	$ (194)	$ (109)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Loss on extinguishment of debt	141	85	—
Depreciation and amortization	321	258	244
Deferred income taxes	(55)	(73)	(26)
Gain on sale of assets	(2)	—	(1)
Non-cash interest expense	13	13	(2)
Non-cash share-based compensation expense	8	19	—
Changes in operating assets and liabilities:			
Accounts receivable	72	(15)	(16)
Inventories	(7)	(5)	1
Royalty advances	(32)	(1)	47
Accounts payable and accrued liabilities	(87)	73	44
Royalty payables	25	6	22
Accrued interest	(15)	(14)	34
Deferred revenue	95	14	4
Other balance sheet changes	(44)	(7)	(33)
Net cash provided by operating activities	130	159	209
Cash flows from investing activities			
Acquisition of music publishing rights, net	(26)	(37)	(32)
Capital expenditures	(76)	(34)	(32)
Investments and acquisitions of businesses, net	(53)	(737)	(6)
Proceeds from sale of building	—	—	12
Net cash used in investing activities	(155)	(808)	(58)
Cash flows from financing activities			
Proceeds from the Revolving Credit Facility	600	136	—
Repayment of the Revolving Credit Facility	(600)	(136)	—
Proceeds from Acquisition Corp. Senior Term Loan Facility	—	1,412	—
Repayment of Acquisition Corp. Senior Term Loan Facility	(10)	(110)	—
Proceeds from issuance of Acquisition Corp. 5.625% Senior Secured Notes	275	—	—
Proceeds from issuance of Acquisition Corp. 6.00% Senior Secured Notes	—	500	—
Repayment of Acquisition Corp. 6.00% Senior Secured Notes	—	(50)	—
Proceeds from issuance of Acquisition Corp. 6.25% Senior Secured Notes	—	227	—
Repayment of Acquisition Corp. 6.25% Senior Secured Notes	—	(23)	—
Proceeds from issuance of Acquisition Corp. 6.750% Senior Notes	660	—	—

Repayment of Acquisition Corp. 9.5% Senior Secured Notes	—	(1,250)	—
Repayment of Acquisition Corp. 11.5% Senior Notes	(765)	—	—
Financing costs paid	(104)	(129)	—
Deferred financing costs paid	(13)	(62)	—
Distribution to noncontrolling interest holder	(3)	(4)	(3)
Repayment of capital lease obligations	(3)	—	—
Net cash provided by (used in) financing activities	37	511	(3)
Effect of exchange rate changes on cash and equivalents	(10)	(9)	—
Net increase (decrease) in cash and equivalents	2	(147)	148
Cash and equivalents at beginning of period	155	302	154
Cash and equivalents at end of period	$157	$ 155	$ 302

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Equity (Deficit)

	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 per share amounts)							
Balance at September 30, 2011	1,000	$0.001	$ 1,129	$ (31)	$ (33)	$ 1,065	$ 17	$1,082
Net (loss) income	—	—	—	(112)	—	(112)	3	(109)
Other comprehensive loss, net of tax	—	—	—	—	(26)	(26)	—	(26)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(3)	(3)
Balance at September 30, 2012	1,000	$0.001	$ 1,129	$ (143)	$ (59)	$ 927	$ 17	$944
Net (loss) income	—	—	—	(198)	—	(198)	4	(194)
Other comprehensive loss, net of tax	—	—	—	—	(2)	(2)	—	(2)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(4)	(4)
Deconsolidation of entity	—	—	(1)	—	—	(1)	—	(1)
Stock dividend	55	—	—	—	—	—	—	-
Balance at September 30, 2013	1,055	$0.001	$ 1,128	$ (341)	$ (61)	$ 726	$ 17	$743
Net (loss) income	—	—	—	(308)	—	(308)	5	(303)
Other comprehensive loss, net of tax	—	—	—	—	(47)	(47)	—	(47)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(3)	(3)
Balance at September 30, 2014	1,055	$0.001	$ 1,128	$ (649)	$ (108)	$ 371	$ 19	$390

See accompanying notes

Warner Music Group Corp.

Notes to Consolidated Audited Financial Statements

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 NYSE. The Company continues to file with the SEC current and periodic reports that would be required to be filed with the SEC pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") in accordance with certain covenants contained in the instruments covering its outstanding indebtedness.

Acquisition of Parlophone Label Group

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

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

Recorded Music Operations

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

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

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

The Company's Recorded Music distribution operations include Warner-Elektra-Atlantic Corporation ("WEA Corp."), which markets and sells music and video products to retailers and wholesale distributors; Alternative Distribution Alliance ("ADA"), which distributes the products of independent labels to retail and wholesale distributors; various distribution centers and ventures operated internationally; and an 80% interest in Word, which specializes in the distribution of music products in the Christian retail marketplace.

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

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 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. Through consistent and tactical talent investment, Warner Chappell has developed a broad array of talent across all genres, resulting in Warner/Chappell being awarded ASCAP's Top Publisher of the Year for each of Pop, Country and Urban, in 2014. 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. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The Company maintains a 52-53 week fiscal year ending on the last Friday in each reporting period. The fiscal year ended September 30, 2014 ended on September 26, 2014, the fiscal year ended September 30, 2013 ended on September 27, 2013, and the fiscal year ended September 30, 2012 ended on September 28, 2012. For convenience purposes, the Company continues to date its financial statements as of September 30.

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.

Reclassifications

Certain reclassifications have been made to the prior fiscal years’ consolidated financial statements to conform with the current fiscal-year presentation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and the accompanying notes. Actual results could differ from those estimates.

Business Combinations

The Company accounts for its business acquisitions under the FASB ASC Topic 805, Business Combination (“ASC 805”) guidance for business combinations. The total cost of acquisitions is allocated to the underlying identifiable net assets based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of assets acquired and liabilities assumed requires management’s judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives and market multiples, among other items.

Cash and Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. The Company includes checks outstanding at year end as a component of accounts payable, instead of a reduction in its cash balance where there is not a right of offset in the related bank accounts.

Accounts Receivable

Credit is extended to customers based upon an evaluation of the customer’s financial condition. Accounts receivable are recorded at net realizable value.

Sales Returns and Allowance for Doubtful Accounts

Management's estimate of physical recorded music products that will be returned, and the amount of receivables that will ultimately be collected is an area of judgment affecting reported revenues and operating income. In determining the estimate of physical product sales that will be returned, management analyzes vendor sales of product, historical return trends, current economic conditions, changes in customer demand and commercial acceptance of our products. Based on this information, management reserves a percentage of each dollar of physical product sales that provide the customer with the right of return. The provision for such sales returns is reflected as a reduction in the revenues from the related sale.

Similarly, the Company monitors customer credit risk related to accounts receivable. Significant judgments and estimates are involved in evaluating if such amounts will ultimately be fully collected. On an ongoing basis, the Company tracks customer exposure based on news reports, ratings agency information and direct dialogue with customers. Counterparties that are determined to be of a higher risk are evaluated to assess whether the payment terms previously granted to them should be modified. The Company also monitors payment levels from customers, and a provision for estimated uncollectible amounts is maintained based on such payment levels, historical experience, management's views on trends in the overall receivable agings and, for larger accounts, analyses of specific risks on a customer specific basis.

Concentration of Credit Risk

Customer credit risk represents the potential for financial loss if a customer is unwilling or unable to meet its agreed upon contractual payment obligations. The Company has no Recorded Music customers that individually represent more than 10% of the Company's consolidated gross accounts receivable. As such, the Company does not believe there is any significant collection risk.

In the Music Publishing business, the Company collects a significant portion of its royalties from copyright collection societies around the world. Collection societies and associations generally are not-for-profit organizations that represent composers, songwriters and music publishers. These organizations seek to protect the rights of their members by licensing, collecting license fees and distributing royalties for the use of the members' works. Accordingly, the Company does not believe there is any significant collection risk from such societies.

Inventories

Inventories consist of DVDs, CDs and related music products. Inventories are stated at the lower of cost or estimated realizable value. Cost is determined using first-in, first-out ("FIFO") and average cost methods, which approximate cost under the FIFO method. Returned goods included in inventory are valued at estimated realizable value, but not in excess of cost.

Derivative and Financial Instruments

The Company accounts for these investments as required by the FASB ASC Topic 815, Derivatives and Hedging ("ASC 815"), which requires that all derivative instruments be recognized on the balance sheet at fair value. ASC 815 also provides that, for derivative instruments that qualify for hedge accounting, changes in the fair value are either (a) offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or (b) recognized in equity until the hedged item is recognized in earnings, depending on whether the derivative is being used to hedge changes in fair value or cash flows. In addition, the ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

The carrying value of the Company's financial instruments approximates fair value, except for certain differences relating to long-term, fixed-rate debt (see Note 17) and other financial instruments that are not significant. The fair value of financial instruments is generally determined by reference to market values resulting from trading on a national securities exchange or an over-the-counter market. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques.

Property, Plant and Equipment

Property, plant and equipment existing at the date of the Merger or acquired in conjunction with subsequent business combinations are recorded at fair value. All other additions are recorded at historical cost. Depreciation is calculated using the straight-line method based upon the estimated useful lives of depreciable assets as follows: five to seven years for furniture and fixtures, periods of up to five years for computer equipment and periods of up to five years for machinery and equipment. Buildings are depreciated over periods of up to forty years. Leasehold improvements are depreciated over the life of the lease or estimated useful lives of the improvements, whichever period is shorter.

Internal-Use Software Development Costs

As required by FASB ASC Subtopic 350-40, Internal-Use Software ("ASC 350-40"), the Company capitalizes certain external and internal computer software costs incurred during the application development stage. The application development stage generally includes software design and configuration, coding, testing and installation activities. Training and maintenance costs are expensed as incurred, while upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality. Capitalized software costs are depreciated over the estimated useful life of the underlying project on a straight-line basis, generally not exceeding five years and are recorded as a component of depreciation expense.

Accounting for Goodwill and Other Intangible Assets

In accordance with FASB ASC Topic 350, Intangibles-Goodwill and Other ("ASC 350"), the Company accounts for business combinations using the acquisition method of accounting and accordingly, the assets and liabilities of the acquired entities are recorded at their estimated fair values at the acquisition date. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. Pursuant to this guidance, the Company does not amortize the goodwill balance and instead, performs an annual impairment test to assess the fair value of goodwill over its carrying value. Identifiable intangible assets with finite lives are amortized over their useful lives.

Goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of the reporting unit to its carrying amount, including goodwill. If the estimated fair value of the reporting unit exceeds its carrying amount, its goodwill is not impaired and the second step of the impairment test is not necessary. If the carrying amount of the reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit goodwill with its carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment is recognized in an amount equal to that excess. Goodwill is tested annually for impairment during the fourth quarter of each fiscal year as of July 1 or earlier upon the occurrence of certain events or substantive changes in circumstances.

The Company performs an annual impairment test of its indefinite-lived intangible assets as of July 1 of each fiscal year, unless events occur which trigger the need for an earlier impairment test. The impairment test involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using a DCF analysis. Common among such an approach is the “relief from royalty” methodology, which is used in estimating the fair value of the Company’s trademarks. Discount rate assumptions are based on an assessment of the risk inherent in the projected future cash flows generated by the respective intangible assets. Also subject to judgment are assumptions about royalty rates, which are based on the estimated rates at which similar trademarks are being licensed in the marketplace.

The impairment tests require management to make assumptions about future conditions impacting the value of the indefinite-lived intangible assets, including projected growth rates, cost of capital, effective tax rates, tax amortization periods, royalty rates, market share and others.

Valuation of Long-Lived Assets

The Company periodically reviews the carrying value of its long-lived assets, including finite lived intangibles, property, plant and equipment and amortizable intangible assets, whenever events or changes in circumstances indicate that the carrying value may not be recoverable or that the lives assigned may no longer be appropriate. To the extent the estimated future cash inflows attributable to the asset, less estimated future cash outflows, are less than the carrying amount, an impairment loss is recognized in an amount equal to the difference between the carrying value of such asset and its fair value. Assets to be disposed of and for which there is a committed plan to dispose of the assets, whether through sale or abandonment, are reported at the lower of carrying value or fair value less costs to sell. If it is determined that events and circumstances warrant a revision to the remaining period of amortization, an asset’s remaining useful life would be changed, and the remaining carrying amount of the asset would be amortized prospectively over that revised remaining useful life.

Foreign Currency Translation

The financial position and operating results of substantially all foreign operations are consolidated using the local currency as the functional currency. Local currency assets and liabilities are translated at the rates of exchange on the balance sheet date, and local currency revenues and expenses are translated at average rates of exchange during the period. Resulting translation gains or losses are included in the accompanying consolidated statements of equity as a component of accumulated other comprehensive loss.

Revenues

Recorded Music

As required by FASB ASC Topic 605, Revenue Recognition ("ASC 605"), the Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collection is probable.

Revenues from the sale of physical Recorded Music products are recognized upon delivery, which occurs once the product has been shipped and title and risk of loss have been transferred. In accordance with industry practice and as is customary in many territories, certain products, such as CDs and DVDs, are sold to customers with the right to return unsold items. Revenues from such sales are generally recognized upon shipment based on gross sales less a provision for future estimated returns. Revenues from the sale of Recorded Music products through digital distribution channels are recognized when the products are sold and related sales accounting reports are delivered by the providers.

Music Publishing

Music Publishing revenues are earned from the receipt of royalties relating to the licensing of rights in musical compositions, and the sale of published sheet music and songbooks. The receipt of royalties principally relates to amounts earned from the public performance of copyrighted material, the mechanical reproduction of copyrighted material on recorded media including digital formats, and the use of copyrighted material in synchronization with visual images. Consistent with industry practice, music publishing royalties, except for synchronization royalties and mechanical royalties in the U.S., generally are recognized as revenue when cash is received. Synchronization revenue and mechanical revenue in the U.S. are recognized as revenue on an accrual basis when all revenue recognition criteria are met in accordance with ASC 605.

Gross Versus Net Revenue Classification

In the normal course of business, the Company acts as an intermediary or agent with respect to certain payments received from third parties. For example, the Company distributes music product on behalf of third-party record labels. As required by FASB ASC Subtopic 605-45, Principal Agent Considerations, such transactions are recorded on a "gross" or "net" basis depending on whether the Company is acting as the "principal" in the transaction or acting as an "agent" in the transaction. The Company serves as the principal in transactions in which it has substantial risks and rewards of ownership and, accordingly, revenues are recorded on a gross basis. For those transactions in which the Company does not have substantial risks and rewards of ownership, the Company is considered an agent and, accordingly, revenues are recorded on a net basis.

To the extent revenues are recorded on a gross basis, any participations and royalties paid to third parties are recorded as expenses so that the net amount (gross revenues less expenses) flows through operating income. To the extent revenues are recorded on a net basis, revenues are reported based on the amounts received, less participations and royalties paid to third parties. In both cases, the impact on operating income is the same whether the Company records the revenues on a gross or net basis.

Based on an evaluation of the individual terms of each contract and whether the Company is acting as principal or agent, the Company generally records revenues from the distribution of recorded music product on behalf of third-party record labels on a gross basis. However, revenues are recorded on a net basis for recorded music compilations distributed by other record companies where the Company has a right to participate in the profits.

Royalty Advances and Royalty Costs

The Company regularly commits to and pays royalty advances to its recording artists and songwriters in respect of future sales. The Company accounts for these advances under the related guidance in FASB ASC Topic 928, Entertainment—Music ("ASC 928"). Under ASC 928, the Company capitalizes as assets certain advances that it believes are recoverable from future royalties to be earned by the recording artist or songwriter. Advances vary in both amount and expected life based on the underlying recording artist or songwriter.

The Company's decision to capitalize an advance to a recording artist or songwriter as an asset requires significant judgment as to the recoverability of the advance. The recoverability is assessed upon initial commitment of the advance based upon the Company's forecast of anticipated revenue from the sale of future and existing albums or songs. In determining whether the advance is recoverable, the Company evaluates the current and past popularity of the recording artist or songwriter, the sales history of the recording artist or songwriter, the initial or expected commercial acceptability of the product, the current and past popularity of the genre of music that the product is designed to appeal to, and other relevant factors. Based upon this information, the Company expenses the portion of any advance that it believes is not recoverable. In most cases, advances to recording artists or songwriters without a history of success and evidence of current or past popularity will be expensed immediately. Significant advances are individually assessed for recoverability continuously and at minimum on a quarterly basis. As part of the ongoing assessment of recoverability, the Company monitors the projection of future sales based on the current environment, the recording artist’s or songwriter’s ability to meet their contractual obligations as well as the Company’s intent to support future album releases or songs from the recording artist or songwriter. To the extent that a portion of an outstanding advance is no longer deemed recoverable, that amount will be expensed in the period the determination is made.

Advertising

As required by the FASB ASC Subtopic 720-35, Advertising Costs (“ASC 720-35”), advertising costs, including costs to produce music videos used for promotional purposes, are expensed as incurred. Advertising expense amounted to approximately $83 million, $70 million, and $67 million for the fiscal years ended September 30, 2014, 2013 and 2012, respectively. Deferred advertising costs, which principally relate to advertisements that have been paid for but not been exhibited or services that have not been received, were not material for all periods presented.

Shipping and Handling

The costs associated with shipping goods to customers are recorded as cost of revenues. Shipping and handling charges billed to customers are included in revenues.

Share-Based Compensation

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, including grants of employee stock options, to be recognized as compensation expense. Under the fair value recognition provision of ASC 718, equity classified share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period.

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. During fiscal year 2013, the Company initiated a long term incentive plan that has liability classification for share-based compensation awards.

Income Taxes

Income taxes are provided using the asset and liability method presented by FASB ASC Topic 740, Income Taxes (“ASC 740”). Under this method, income taxes (i.e., deferred tax assets, deferred tax liabilities, taxes currently payable/refunds receivable and tax expense) are recorded based on amounts refundable or payable in the current fiscal year and include the results of any differences between U.S. GAAP and tax reporting. Deferred income taxes reflect the tax effect of net operating loss, capital loss and general business credit carry forwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statements and income tax purposes, as determined under enacted tax laws and rates. Valuation allowances are established when management determines that it is more likely than not that some portion or the entire deferred tax asset will not be realized. The financial effect of changes in tax laws or rates is accounted for in the period of enactment.

From time to time, the Company engages in transactions in which the tax consequences may be subject to uncertainty. Significant judgment is required in assessing and estimating the tax consequences of these transactions. The Company prepares and files tax returns based on its interpretation of tax laws and regulations. In the normal course of business, the Company’s tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. In determining the Company’s tax provision for financial reporting purposes, the Company establishes a reserve for uncertain tax positions unless such positions are determined to be more likely than not of being sustained upon examination based on their technical merits. There is considerable judgment involved in determining whether positions taken on the Company’s tax returns are more likely than not of being sustained.

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 Consolidated 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 Consolidated Financial Statements, other than disclosure.

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, 2016, and interim periods within those years. Early application is not permitted. 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 April 2014, the FASB issued ASU 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (“ASU 2014-08”). This ASU increases the requirements for components to be classified as discontinued operations to require a strategic shift (major line of business, major geographical area) that has or will have a major effect on an entity's operations and financial results. ASU 2014-08 is effective prospectively for disposals that occur in annual periods beginning after December 15, 2014, and interim periods thereafter. The adoption of this standard is not expected to have a significant impact on the Company’s financial statements.

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”). This ASU 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.

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 Company is currently evaluating the impact of the adoption of this standard.

In November 2014, the FASB issued ASU 2014-17, Business Combinations (Topic 805): Pushdown Accounting (“ASU 2014-17”). This ASU provides acquired entities the option to apply pushdown accounting in their separate financial statements when an acquirer obtains control of them. ASU 2014-17 was effective upon issuance. This election to apply pushdown accounting is made for each individual change-in-control event which could have an impact on the Company’s financial statements.

3. Comprehensive Income (Loss)

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

	Foreign Currency Translation Loss	Minimum Pension Liability Adjustment	Deferred Gains (Losses) On Derivative Financial Instruments	Accumulated Other Comprehensive Loss, net
	(in millions)			
Balance at September 30, 2011	$(35)	$ 1	$ 1	$ (33)
Other comprehensive loss (a)	(19)	(7)	—	(26)
Amounts reclassified from accumulated other comprehensive income	—	—	—	—
Balance at September 30, 2012	$(54)	$ (6)	$ 1	$ (59)
Other comprehensive loss (a)	(3)	3	—	—
Amounts reclassified from accumulated other comprehensive income	—	(1)	(1)	(2)
Balance at September 30, 2013	$(57)	$ (4)	$ —	$ (61)
Other comprehensive loss (a)	(41)	(6)	—	(47)
Amounts reclassified from accumulated other comprehensive income	—	—	—	—
Balance at September 30, 2014	$(98)	$ (10)	$ —	$ (108)

(a) Foreign currency translation adjustments include intra-entity foreign currency transactions that are of a long-term investment nature of $(13) million, $(4) million and $4 million during the fiscal year ended September 30, 2014, 2013 and 2012, respectively.

4. Acquisition of Parlophone Label Group

On July 1, 2013, the Company completed the acquisition of Parlophone Label Group ("PLG") from Universal Music for £487 million in an all-cash transaction (the "PLG Acquisition"). The PLG Acquisition was accounted for in accordance with ASC 805, using the acquisition method of accounting. The assets acquired and liabilities assumed in connection with the PLG Acquisition, including identifiable intangible assets, have been measured at their fair value primarily using Level 3 inputs (see Note 17 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.

In connection with the PLG Acquisition, the Company incurred $59 million in professional fees and integration costs during the fiscal year ended September 30, 2014 and $43 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 allocation of the purchase price was completed as of June 30, 2014 and any adjustments to goodwill made up to that date were recorded in the Company’s balance sheet as of June 30, 2014. The table below presents (i) the estimate of the PLG Acquisition consideration as it relates to the acquisition of PLG by the Buyers and (ii) the final 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*	83
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*	(140)
Other noncurrent liabilities *	(27)
Fair value of net assets acquired	497
Goodwill recorded *	268
Total purchase price allocated	$765

* Preliminary amounts were adjusted in the first and third quarters of fiscal 2014 based on new information obtained during the measurement period.

As of September 30, 2014, the final working capital adjustment had still not been determined, but was subsequently determined as described in Note 18. We have accrued for the impact of this subsequent event in our results for the year ended September 30, 2014 as it represents the culmination of our previously estimated adjusted purchase price for PLG. The final working capital adjustment of £23 million is reflected in the statement of operations as the measurement period for this acquisition has closed. The impact of this has been offset by the release of various net liability balances as they are settled as a result of the final completion statement.

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

The 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
Total intangible assets	$ 764	

Pro Forma Financial Information (unaudited)

The following unaudited pro forma information has been presented as if the PLG Acquisition occurred on October 1, 2011. This information is based on historical results of operations, adjusted to give effect to pro forma events that are (i) directly attributable to the PLG Acquisition; (ii) factually supportable; and (iii) expected to have a continuing impact on the Company's combined results. Additionally, certain pro forma adjustments have been made to the historical results of PLG in order to (i) convert them to U.S. GAAP; (ii) conform their accounting policies to those applied by the Company; (iii) present them in U.S. dollars; (iv) align accounting periods; (v) eliminate revenue and expenses and related assets and liabilities for international licensing agreements to sell repertoire owned by non-acquired entities that have been terminated as a result of the PLG Acquisition; and (vi) exclude assets not acquired by the Company. The unaudited pro forma results do not reflect the realization of any cost savings as a result of restructuring activities and other cost savings initiatives planned subsequent to the PLG Acquisition or the related estimated restructuring charges contemplated in association with any such expected cost savings. Such charges will be expensed in the appropriate accounting periods. The unaudited pro forma results for the fiscal years ended September 30, 2013 and 2012 include the licensing income remitted to the repertoire owner by the selling territory, but do not reflect the licensing fee retained and related direct costs incurred by the selling territory. For the fiscal year ended September 30, 2014, where the Company is the selling territory, the licensing fee and direct costs are included in our consolidated results.

The pro forma information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the PLG Acquisition had taken place at the beginning of fiscal 2012.

	September 30, 2013	September 30, 2012
	(in millions)	
Revenue	$3,131	$ 3,130
Operating income (loss)	135	(392)
Net loss attributable to Warner Music Group Corp.	(154)	(609)

Actual results related to PLG included in the Consolidated Statements of Operations for the fiscal year ended September 30, 2014 consist of revenues of $322 million and operating loss of $103 million including restructuring charges and integration costs. Actual results related to PLG included in the Consolidated Statements of Operations for the fiscal year ended September 30, 2013 relate to the transition period from July 1, 2013 to September 30, 2013 and consist of revenues of $59 million and operating loss of $32 million.

5. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	September 30, 2014	September 30, 2013
	(in millions)	
Land	$16	$ 16
Buildings and improvements	109	81
Furniture and fixtures	16	13
Computer hardware and software	191	155
Construction in progress	28	14
Machinery and equipment	11	9
Gross Property, Plant and Equipment	$371	$ 288
Less accumulated depreciation	(144)	(108)
Net Property, Plant and Equipment	$227	$ 180

6. 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, 2012	$916	$ 464	$1,380
Acquisitions	274	—	274
Dispositions	—	—	—
Other adjustments	14	—	14
Balance at September 30, 2013	$1,204	$ 464	$1,668
Acquisitions	9	—	9
Dispositions	—	—	—
Other adjustments	(16)	—	(16)
Balance at September 30, 2014	$1,197	$ 464	$1,661

The increase in goodwill during the fiscal year ended September 30, 2014 includes an adjustment to preliminary amounts recorded in the prior period as a result of the PLG Acquisition based on new information obtained during the measurement period and goodwill associated with the Gold Typhoon acquisition in July 2014. The increase in goodwill during the fiscal year ended September 30, 2013 primarily includes $263 million related to the PLG Acquisition and additional goodwill related to other Recorded Music transactions. The other adjustments during both the fiscal year ended September 30, 2014 and 2013 primarily represent foreign currency movements.

The Company performs its annual goodwill impairment test in accordance with 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. The performance of the annual fiscal 2014 impairment analysis did not result in an impairment of the Company's goodwill.

Intangible Assets

Intangible assets consist of the following:

	Weighted Average Useful Life	September 30, 2014	September 30, 2013
		(in millions)	
Intangible assets subject to amortization:			
Recorded music catalog	11 years	$1,040	$ 1,006
Music publishing copyrights	27 years	1,550	1,546
Artist and songwriter contracts	13 years	975	983
Trademarks	7 years	7	7
Total gross intangible asset subject to amortization		3,572	3,542
Accumulated amortization		(688)	(435)
Total net intangible assets subject to amortization		2,884	3,107
Intangible assets not subject to amortization:			
Trademarks and tradenames	Indefinite	120	120
Total net other intangible assets		$3,004	$ 3,227

Amortization

Based on the amount of intangible assets subject to amortization at September 30, 2014, the expected amortization for each of the next five fiscal years and thereafter are as follows:

Fiscal
Years
Ended

	September 30, (in millions)
2015	$ 265
2016	255
2017	215
2018	215
2019	207
Thereafter	1,727
	$ 2,884

The life of all acquired intangible assets is evaluated based on the expected future cash flows associated with the asset. The expected amortization expense above reflects estimated useful lives assigned to the Company's identifiable, finite-lived intangible assets established in the accounting for the Merger and the PLG Acquisition.

7. Debt

Debt Capitalization

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

	September 30, 2014	September 30, 2013
	(in millions)	
Revolving Credit Facility—Acquisition Corp. (a)	$—	$ —
Senior Term Loan Facility due 2020—Acquisition Corp. (b)	1,294	1,303
5.625% Senior Secured Notes due 2022—Acquisition Corp.	275	—
6.00% Senior Secured Notes due 2021—Acquisition Corp.	450	450
6.25% Senior Secured Notes due 2021—Acquisition Corp. (c)	201	213
6.75% Senior Notes due 2022—Acquisition Corp.	660	—
11.5% Senior Notes due 2018—Acquisition Corp. (d)	—	751
13.75% Senior Notes due 2019—Holdings	150	150
Total debt	3,030	2,867
Less: current portion	13	13
Total long-term debt	$3,017	$ 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 September 30, 2014 and September 30, 2013, respectively. There were no loans outstanding under the Revolving Credit Facility at September 30, 2014 or September 30, 2013.

(b) Principal amount of $1.300 billion and $1.310 billion less unamortized discount of $6 million and $7 million at September 30, 2014 and September 30, 2013, respectively. Of this amount, $13 million, representing the scheduled amortization of the Term Loan, was included in the current portion of long term debt at September 30, 2014 and September 30, 2013.

(c) Face amount of €158 million. Above amounts represent the dollar equivalent of such notes at September 30, 2014 and September 30, 2013.

(d) Face amount of $765 million less unamortized discounts of $14 million at September 30, 2013. The Company refinanced the $765 million of 11.5% Senior Notes due 2018 as part of the 2014 Refinancing.

2012 Debt Refinancing

On November 1, 2012, the Company completed a refinancing (the “2012 Refinancing”) of its then outstanding senior secured notes due 2016. In connection with the 2012 Refinancing, the Company issued new senior secured notes consisting of $500 million aggregate principal amount of 6.00% Senior Secured Notes due 2021 (“the Dollar Notes”) and €175 million aggregate principal amount of 6.25% Senior Secured Notes due 2021 (the “Euro Notes” and together with the Dollar Notes, the “Existing Senior Secured Notes”) and entered into new senior secured credit facilities consisting of a $600 million term loan facility (the “Senior Term Loan Facility”) and a $150 million revolving credit facility (the “Revolving Credit Facility” and, together with the Senior Term Loan Facility, the “Senior Credit Facilities”). Acquisition Corp. is the borrower under the Revolving Credit Facility (the “Revolving Borrower”) and under the Senior Term Loan Facility (the “Term Loan Borrower”). The proceeds from the 2012 Refinancing, together with $101 million of the Company’s available cash, were used to pay the total consideration due in connection with the tender offers for all of the Company’s previously outstanding $1.250 billion 9.50% senior secured notes due 2016 (the “Old Secured

Notes”) as well as associated fees and expenses and to redeem all of the remaining notes not tendered in the tender offers. The Company also retired its existing $60 million revolving credit facility (the “Old Revolving Credit Facility”) in connection with the 2012 Refinancing, replacing it with the Revolving Credit Facility.

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 Senior Term Loan Facility and Drawdown of Incremental Term Loan Facility

On May 9, 2013, Acquisition Corp. prepaid $102.5 million in aggregate principal amount of term loans under the Senior Term Loan Facility (the "Term Loan Repayment"). Also on May 9, 2013, the Term Loan Borrower entered into an amendment to the Senior Term Loan Facility among the Term Loan Borrower, Holdings, the subsidiaries of the Term Loan Borrower party thereto, Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto, providing for the refinancing of the then outstanding term loan and for a $820 million senior secured incremental term loan facility (the "Incremental Term Loan Facility"). As part of the amendment to the Senior Term Loan Facility, the interest rate, maturity date, and scheduled amortization were changed. On July 1, 2013, Acquisition Corp. drew down the $820 million Incremental Term Loan Facility to fund the PLG Acquisition, pay fees, costs and expenses related to the PLG Acquisition and for general corporate purposes of Acquisition Corp. and its subsidiaries. Initially, the Senior Term Loan Facility provided for term loans thereunder (the "Term Loans") in an amount of up to $1.310 billion.

Debt Redemptions

On June 21, 2013, Acquisition Corp. redeemed 10% of its Senior Secured Notes due 2021, representing repayment of $50 million in aggregate principal amount of its outstanding 6.00% Senior Secured Notes due 2021 and €17.5 million in aggregate principal amount of its outstanding 6.25% Senior Secured Notes due 2021. The Company recorded a loss on extinguishment of debt of approximately $2 million in the fiscal year ended September 30, 2013, which represents the premium paid on early redemption.

2014 Debt Refinancing

On April 9, 2014, the Company completed a refinancing of part of its outstanding debt (the "2014 Refinancing"). In connection with the 2014 Refinancing, the Company issued $275 million in aggregate principal amount of its 5.625% Senior Secured Notes due 2022 (the "New Senior Secured Notes") and $660 million in aggregate principal amount of its 6.750% Senior Notes due 2022 (the "New Unsecured Notes").

In connection with the 2014 Refinancing, the Company used $869 million, to redeem or repurchase the Company's previously outstanding $765 million 11.5% Senior Notes due 2018 and to pay tender/call premiums of $85 million and consent fees of approximately $19 million. The Company also paid approximately $3 million in accrued interest with respect to the notes redeemed or repurchased.

The Company recorded a loss on extinguishment of debt of approximately $141 million in the fiscal year ended September 30, 2014, which represents the difference between the redemption payment and the carrying value of the debt, which included the principal value of $765 million, less unamortized discounts of $13 million and unamortized debt issuance costs of $24 million.

Interest Rates

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

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

Amortization and Maturity of 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

On March 25, 2014, Acquisition Corp. received lender consent to an amendment to the credit agreement for its Revolving Credit Facility. The amendment became effective on April 9, 2014 and extended the maturity date of the Revolving Credit Facility to April 1, 2019.

Maturities of Senior Notes and Senior Secured Notes

As of September 30, 2014, there are no scheduled maturities of notes until 2019, when $150 million is scheduled to mature. Thereafter, $1.586 billion is scheduled to mature.

Interest Expense, net

Total interest expense, net, was $203 million, $203 million, and $225 million for the fiscal years ended September 30, 2014, 2013 and 2012, respectively. The weighted-average interest rate of the Company’s total debt was 5.6% at September 30, 2014 and 6.9% at September 30, 2013.

8. Income Taxes

The domestic and foreign pretax (loss) income from continuing operations is as follows:

	Fiscal Year Ended September 30, 2014	Fiscal Year Ended September 30, 2013	Fiscal Year Ended September 30, 2012
	(in millions)		
Domestic	$(153)	$ (73)	$ (84)
Foreign	(176)	(152)	(24)
Total	$(329)	$ (225)	$ (108)

Current and deferred income taxes (tax benefits) provided are as follows:

	Fiscal Year Ended September 30, 2014	Fiscal Year Ended September 30, 2013	Fiscal Year Ended September 30, 2012
	(in millions)		
Federal:			
Current	$—	$ —	$ —
Deferred	(7)	(6)	(8)
Foreign:			
Current (a)	35	25	24
Deferred	(55)	(54)	(18)
U.S. State:			
Current	(6)	13	3
Deferred	7	(9)	—
Total	$(26)	$ (31)	$ 1

(a) Includes cash withholding taxes of $11 million, $9 million and $8 million for the fiscal year ended September 30, 2014, for the fiscal year ended September 30, 2013, and for the fiscal year ended September 30, 2012, respectively.

The differences between the U.S. federal statutory income tax rate of 35% and income taxes provided are as follows:

	Fiscal Year Ended September 30, 2014	Fiscal Year Ended September 30, 2013	Fiscal Year Ended September 30, 2012
	(in millions)		
Taxes on income at the U.S. federal statutory rate	$(115)	$ (79)	$ (37)
U.S. state and local taxes	1	4	3
Foreign income taxed at different rates, including withholding taxes	(15)	15	13
Increase in valuation allowance	101	36	28
Release of valuation allowance	(3)	(1)	(1)
Change in tax rates	1	(20)	(6)
Nondeductible transaction costs	—	13	—
Other	4	1	1
Total income tax (benefit) expense	$(26)	$ (31)	$ 1

For the fiscal year ended September 30, 2014 and for the fiscal year ended September 30, 2013, the Company incurred losses in the U.S. and certain foreign territories and has offset the tax benefit associated with these losses with a valuation allowance as the Company has determined that it is more likely than not that these losses will not be utilized. The balance of the U.S. tax attributes remaining at September 30, 2014 continues to be offset by a full valuation allowance as the Company has determined that it is more likely than not that these attributes will not be realized. Significant components of the Company’s net deferred tax assets/(liabilities) are summarized below:

	September 30, 2014	September 30, 2013
	(in millions)	
Deferred tax assets:		
Allowances and reserves	$43	$ 44
Employee benefits and compensation	43	39
Other accruals	72	59
Tax attribute carry forwards	619	518
Other	3	1
Total deferred tax assets	780	661
Valuation allowance	(394)	(296)
Net deferred tax assets	386	365
Deferred tax liabilities:		

Depreciation, amortization and artist advances	(9)	(12)
Intangible assets	(714)	(749)
Total deferred tax liabilities	(723)	(761)
Net deferred tax liabilities	$(337)	$ (396)

At September 30, 2014, the Company has U.S. federal tax net operating loss carry-forwards of $761 million, which will begin to expire in fiscal year 2024. Tax net operating loss carry forwards in state, local and foreign jurisdictions expire in various periods. In addition, the Company has foreign tax credit carry-forwards for U.S. tax purposes of $149 million. During the year ended September 30, 2014 the Company converted $20 million of expiring foreign tax credits to deductions. The remaining foreign tax credits will begin to expire in 2016.

U.S. income and foreign withholding taxes have not been recorded on indefinitely reinvested earnings of certain foreign subsidiaries of approximately $157 million at September 30, 2014. As such, no deferred income taxes have been provided for these undistributed earnings. Should these earnings be distributed, foreign tax credits and net operating losses may be available to reduce the additional federal income tax that would be payable. However, availability of these foreign tax credits is subject to limitations which make it impracticable to estimate the amount of the ultimate tax liability, if any, on these accumulated foreign earnings.

The Company classifies interest and penalties related to uncertain tax positions as a component of income tax expense. As of September 30, 2014 and September 30, 2013, the Company had accrued $4 million and $6 million of interest and penalties, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits are as follows (in millions):

Balance at September 30, 2011	$11
Additions for current year tax positions	4
Additions for prior year tax positions	—
Subtractions for prior year tax positions	(1)
Balance at September 30, 2012	$14
Additions for current year tax positions	5
Additions for prior year tax positions	11
Subtractions for prior year tax positions	—
Balance at September 30, 2013	$30
Additions for current year tax positions	10
Additions for prior year tax positions	1
Subtractions for prior year tax positions	(14)
Balance at September 30, 2014	$27

Included in the total unrecognized tax benefits at September 30, 2014 and 2013 are $27 million and $30 million, respectively, that if recognized, would favorably affect the effective income tax rate. The amount of the reserve for uncertain tax positions may change in the next twelve months due to certain resolution of various income tax matters. An estimate of the range of the possible change cannot be made until these tax matters are further developed or resolved.

The Company and its subsidiaries file income tax returns in the U.S. and various foreign jurisdictions. The Company has completed tax audits in the U.S. for tax years ended through September 30, 2008, in the U.K. for the tax years ending through September 30, 2011, in Canada for tax years ended through September 30, 2006 and in Japan for the tax years ending through September 30, 2007. The Company is at various stages in the tax audit process in certain foreign and local jurisdictions.

9. Employee Benefit Plans

Certain international employees, such as those in Germany and Japan, participate in locally sponsored defined benefit plans, which are not considered to be material either individually or in the aggregate and have a combined projected benefit obligation of approximately $75 million and $63 million as of September 30, 2014 and 2013, respectively. Pension benefits under the plans are based on formulas that reflect the employees’ years of service and compensation levels during their employment period. The Company had unfunded pension liabilities relating to these plans of approximately $50 million and $43 million recorded in its balance sheets as of September 30, 2014 and 2013, respectively. The Company uses a September 30 measurement date for its plans. For the fiscal year ended September 30, 2014, September 30, 2013, and September 30, 2012, pension expense amounted to $4 million, $4 million, and $4 million, respectively.

Certain employees also participate in defined contribution plans. The Company's contributions to the defined contribution plans are based upon a percentage of the employees' elected contributions. The Company's defined contribution plan expense amounted to approximately $5 million for the fiscal year ended September 30, 2014, $4 million for the fiscal year ended September 30, 2013, and $4 million for the fiscal year ended September 30, 2012.

10. Restructuring

In conjunction with the PLG Acquisition, the Company undertook a plan to achieve cost savings (the "Restructuring Plan"), primarily through headcount reductions. The Restructuring Plan was approved by the CEO prior to the close of the PLG Acquisition. Under the Restructuring Plan, the Company currently expects to record an aggregate of approximately $77 million in restructuring charges, currently estimated to be made up of employee-related costs of $69 million, real estate costs of $6 million and other costs of $2 million. Total restructuring costs of $50 million were incurred in the fiscal year ended September 30, 2014 with respect to these actions, which consist of $45 million of employee-related costs, $4 million of real estate costs and $1 million of other costs. Total restructuring costs of $22 million were incurred in the fiscal year ended September 30, 2013 with respect to these actions, which solely consist of $22 million of employee-related costs. Total costs to date under the Restructuring Plan are $72 million, including total cash payments of $59 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, 2012	$—	$ —	$ —	$—
Restructuring expense	22	—	—	22
Cash payments	(12)	—	—	(12)
Balance at September 30, 2013	$10	$ —	$ —	$10
Restructuring expense	45	4	1	50
Cash payments	(43)	(3)	(1)	(47)
Balance at September 30, 2014	$12	$ 1	$ —	$13

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 statements of operations resulting from the Restructuring Plan is shown below:

	Fiscal Year Ended September 30, 2014	Fiscal Year Ended September 30, 2013
	(in millions)	
Selling, general and administrative expenses	$ 50	$ 22
Total restructuring expense	$ 50	$ 22

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

11. 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 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 to employees using the intrinsic value method instead of fair value as it is not practical to estimate the volatility of its share price. In accordance with ASC 718, the Company measures share-based compensation costs to non-employees at fair value under ASC 820, which does not allow for use of the intrinsic method.

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:

	Deferred Equity Units	Matching Equity Units	Deferred Equity Units Weighted-Average Fair Value	Matching Equity Units Weighted-Average Intrinsic Value	Deferred Equity Units Weighted-Average Grant-Date Intrinsic Value	Matching Equity Units Weighted-Average Grant-Date Intrinsic Value
Unvested units at January 1, 2013						
Granted	25	25	$ 134.62	$ 27.49	$ 107.13	$ —
Vested	—	—	—	—	—	—
Forfeited	(1)	(1)	—	—	107.13	—
Unvested units at September 30, 2013	24	24	$ 134.62	$ 27.49	$ 107.13	$ —
Granted	2	2	134.62	—	107.13	—
Vested	(5)	—	134.62	27.49	107.13	—
Forfeited	(2)	(2)	134.62	27.49	107.13	—
Unvested units at September 30, 2014	19	24	$ 132.92	$ 25.79	$ 107.13	$ —

The weighted-average grant date intrinsic value of deferred equity unit awards for the fiscal year ended September 30, 2014 was $107.13. The fair value of these deferred equity units at September 30, 2014 was $132.92. The weighted-average grant date intrinsic value of deferred equity unit awards for the period ended September 30, 2013 was $107.13. The fair value of these deferred equity units at September 30, 2013 was $134.62.

Compensation Expense

The Company recognized non-cash share-based compensation expense of $8 million for the fiscal year ended September 30, 2014. Of the $8 million, $5 million related to awards for employees and $3 million related to awards for non-employees for the fiscal year ended September 30, 2014. The Company recognized non-cash share-based compensation of $19 million for the fiscal year ended September 30, 2013. Of the $19 million, $12 million related to awards for employees and $7 million related to awards for non-employees for the fiscal year ended September 30, 2013.

In addition, at September 30, 2014 and September 30, 2013, the Company had approximately $12 million and $20 million, respectively, of unrecognized compensation costs related to its unvested share awards. As of September 30, 2014, the remaining weighted average period over which total compensation related to unvested awards is expected to be recognized is 3 years.

12. Related Party Transactions

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 will provide 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 also paid Access an $11 million transaction fee related to the PLG Acquisition in fiscal 2013. 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 $8 million, $19 million and $8 million for the fiscal years ended September 30, 2014, 2013 and 2012, respectively, which includes the annual fee and reimbursement of certain expenses in connection with the Management Agreement, an $11 million transaction fee related to the PLG Acquisition in the fiscal year ended September 30, 2013, but excludes $2 million of expenses reimbursed related to certain consultants with full time roles at the Company for each of the fiscal years ended September 30, 2014, 2013 and 2012. Such amounts have been included as a component of selling, general and administrative expense in the accompanying statements of operations.

Lease Arrangements with Related Party

On July 29, 2014, AI Wrights Holdings Limited, an affiliate of Access, entered into a lease and related agreements with Warner/Chappell Music Limited and WMG Acquisition (UK) Limited, subsidiaries of the Company, for the lease of 27 Wrights Lane, Kensington, London. The Company had been the tenant of the building, which Access acquired during the year. Subsequent to the change in ownership, the Company entered into the new lease arrangements. Pursuant to the agreements, on January 1, 2015, the rent in the lease shall be increased to £3,460,250 per year, the term was extended five years and the Company received certain rights to extend the term for an additional five years following a market rate rent review.

On September 27, 2011, Access Industries (UK) Limited, an affiliate of Access, entered into a License to Occupy on a Short Term Basis agreement with Warner Music UK Limited, one of the Company’s subsidiaries, for the license of office space in the Company's building at 28 Kensington Church Street, Kensington, London. The license fee of £15,839 per month (exclusive of VAT) was based on the per foot lease costs to the Company. For the fiscal years ended September 30, 2014, 2013 and 2012, an immaterial amount was recorded as a reduction of rent expense in the accompanying statements of operations. The license agreement was terminated on October 13, 2014.

On May 6, 2013, a subsidiary of the Company, Warner Music Inc., entered into a license agreement with Access Industries, Inc., an affiliate of Access, for the use of office space leased by Access at the building at 450 West 14th Street, New York, New York. The license fee of $27,033.50 per month was based on the per foot lease costs to the Company of its current headquarters space, which represented market terms. For the fiscal years ended September 30, 2014 and 2013, an immaterial amount was recorded as rent expense. The license agreement was terminated on July 31, 2014.

Deezer

Access owns a minority equity interest in Odyssey Music Group ("Odyssey"), a French company that controls and operates a digital music streaming service through Odyssey's subsidiary, Blogmusik SAS ("Blogmusik"), under the name Deezer ("Deezer"), and is represented on Odyssey's Board of Directors. Subsidiaries of the Company, Warner Music Inc. and WEA International Inc. have been a party to license arrangements with Deezer since 2008 (Warner Music Inc. was added as a party to the license in 2014 in respect of the U.S.), which provide for the use of the Company's sound recording content on Deezer's ad-supported and subscription streaming services worldwide (excluding Japan) in exchange for fees paid by Deezer. Warner Music Inc. and WEA International Inc. have also authorized Deezer to include Warner content in Deezer's streaming services where such services are offered as a bundle with third party services or products (e.g., telco services or hardware products), for which Deezer is also required to make payments to Warner Music Inc. and WEA International Inc. Deezer paid to WEA International Inc. an aggregate amount of approximately $21 million and $9 million in connection with the foregoing arrangements during the fiscal year ended September 30, 2014 and 2013, respectively.

Equity Investment

In fiscal 2014, the Company made an investment in a company in which Access was a minority owner, which was subsequently sold during fiscal 2014. As a result of the sale transaction, the Company recognized a gain of $2 million.

Southside Earn-Out

In December 2010, the Company acquired Southside Independent Music Publishing, LLC and contractually agreed to provide contingent earn-out payments to Cameron Strang, the former owner of Southside and currently the Chairman and CEO of Warner Bros. Records and Warner/Chappell Music, provided specified performance goals were achieved. The goals relate to achievement of specified NPS ("net publishers share," a measure of earnings) requirements by the acquired assets during the five-year period following closing of the acquisition. The Company had previously recorded a $6 million liability as of September 30, 2013 based on the fair value of the expected earn-out payments. The Company concluded that it was no longer likely that the specified performance goals would be achieved. As such, the liability was reversed, and no liability was recorded on the balance sheet at September 30, 2014. The Company was also required to pay Mr. Strang certain monies that might be received and applied by the Company in recoupment of advance payments made by Southside prior to the acquisition in an amount not to exceed approximately $0.8 million, all of which has been paid since the acquisition.

13. Commitments and Contingencies

Leases

The Company occupies various facilities and uses certain equipment under both capital and operating leases. Net rent expense was approximately $82 million, $61 million and $63 million for the fiscal years ended September 30, 2014, 2013 and 2012, respectively.

At September 30, 2014, future minimum payments under non-cancelable capital and operating leases (net of sublease income) are as follows:

Years	Capital Leases	Operating Leases
	(in millions)	
2015	$ 3	$ 48
2016	1	44

2017	—	43
2018	—	37
2019	—	36
Thereafter	—	254
Total	$ 4	$ 462

The future minimum payments reflect the amounts owed under lease arrangements and do not include any fair market value adjustments that may have been recorded as a result of the Merger.

Amortization of capital leases is included in depreciation expense in the consolidated statements of operations. Capital lease amounts included in property, plant, and equipment are as follows:

	September 30, 2014	September 30, 2013
	(in millions)	
Capital Leases	$ 30	$ 33
Less accumulated amortization	(1)	—
Total	$ 29	$ 33

Talent Advances

The Company routinely enters into long-term commitments with artists, songwriters and co-publishers for the future delivery of music product. Such commitments generally become due only upon delivery and Company acceptance of albums from the artists or future musical compositions by songwriters and co-publishers. Additionally, such commitments are typically cancelable at the Company's discretion, generally without penalty. Based on contractual obligations and the Company's expected release schedule, aggregate firm commitments to such talent for the next 12 month period approximated $190 million and $201 million as of September 30, 2014 and September 30, 2013, respectively.

Other

Other off-balance sheet, firm commitments, which primarily include minimum funding commitments to investees, amounted to approximately $5 million and $7 million at September 30, 2014 and September 30, 2013, respectively.

Litigation

Pricing of Digital Music Downloads

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

Upon remand to the District Court, all defendants, including the Company, filed a renewed motion to dismiss challenging, among other things, plaintiffs' state law claims and standing to bring certain claims. The renewed motion was based mainly on arguments made in defendants' original motion to dismiss, but not addressed by the District Court. On July 18, 2011, the District Court granted defendants' motion in part, and denied it in part. Notably, all claims on behalf of the CD-purchaser class were dismissed with prejudice. However, a wide variety of state and federal claims remain for the class of internet download purchasers. Plaintiffs filed an operative consolidated amended complaint on August 31, 2011. Pursuant to the terms of an August 15, 2011 stipulation and order, the case is currently in discovery. Disputes regarding the scope of discovery are ongoing. Plaintiffs filed a Class Certification brief on March 14, 2014. The Company's reply date has not yet been set. 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. Plaintiffs filed their motion for final approval of the Settlement Agreement on November 26, 2014. The hearing on final approval of the settlement is scheduled for January 8, 2015. 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.

14. Derivative Financial Instruments

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

The Company enters into foreign currency forward exchange contracts primarily to hedge the risk that unremitted or future royalties and license fees owed to its domestic companies for the sale, or anticipated sale, of U.S.-copyrighted products abroad may be adversely affected by changes in foreign currency exchange rates. The Company focuses on managing the level of exposure to the risk of foreign currency exchange rate fluctuations on its major currencies, which include the Euro, British pound sterling, Japanese yen, Canadian dollar, Swedish krona and Australian dollar.

The foreign currency forward exchange contracts related to royalties are designated and qualify as cash flow hedges under the criteria prescribed in ASC 815. The Company records these contracts at fair value on its balance sheet and gains or losses on these contracts are deferred in equity (as a component of comprehensive loss). These deferred gains and losses are recognized in income in the period in which the related royalties and license fees being hedged are received and recognized in income. However, to the extent that any of these contracts are not considered to be perfectly effective in offsetting the change in the value of the royalties and license fees being hedged, any changes in fair value relating to the ineffective portion of these contracts are immediately recognized in income.

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

The fair value of foreign currency forward exchange contracts is determined by using observable market transactions of spot and forward rates (i.e., Level 2 inputs) which is discussed further in Note 17. 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 September 30, 2014, the Company had outstanding hedge contracts for the sale of $7 million of foreign currencies at fixed rates. As of September 30, 2014, the Company had less than $1 million of deferred gains or losses in comprehensive loss related to foreign exchange hedging. As of September 30, 2013, the Company had outstanding hedge contracts for the sale of $1.044 billion and the purchase of $249 million of foreign currencies at fixed rates. As of September 30, 2013, the Company had less than $1 million of 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 September 30, 2014 and September 30, 2013:

	September 30, 2014 [a]	September 30, 2013 [b]
	(in millions)	
Other current assets	$ —	$ 1
Other current liabilities	—	(23)

(a) Includes less than $1 million of foreign exchange derivative contracts in asset and liability positions.
(b) Includes $5 million and $27 million of foreign exchange derivative contracts in asset and liability positions, respectively.

15. 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 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.

	Recorded Music (in millions)	Music Publishing	Corporate expenses and eliminations	Total
2014				
Revenues	$2,526	$ 517	$ (16)	$3,027
OIBDA	267	166	(93)	340
Depreciation of property, plant and equipment	(35)	(7)	(13)	(55)
Amortization of intangible assets	(201)	(65)	—	(266)
Operating income (loss)	31	94	(106)	19
Total assets	3,273	2,393	288	5,954
Capital expenditures	27	8	41	76
2013				
Revenues	$2,389	$ 503	$ (21)	$2,871
OIBDA	270	148	(85)	333
Depreciation of property, plant and equipment	(32)	(6)	(13)	(51)
Amortization of intangible assets	(146)	(61)	—	(207)
Operating income (loss)	92	81	(98)	75
Total assets	3,426	2,444	382	6,252
Capital expenditures	12	3	19	34
2012				
Revenues	$2,281	$ 518	$ (19)	$2,780
OIBDA	289	146	(82)	353
Depreciation of property, plant and equipment	(31)	(6)	(14)	(51)
Amortization of intangible assets	(132)	(61)	—	(193)
Operating income (loss)	126	79	(96)	109
Capital expenditures	12	2	18	32

Revenues relating to operations in different geographical areas are set forth below for the fiscal years ended September 30, 2014, 2013 and 2012. Total assets relating to operations in different geographical areas are set forth below as of September 30, 2014 and September 30, 2013.

	2014		2013		2012
	Revenue (in millions)	Long-lived Assets	Revenue	Long-lived Assets	Revenue
United States	$1,141	$ 148	$1,161	$ 106	$ 1,113

United Kingdom	467	30	383	18	342
All other territories	1,419	49	1,327	56	1,325
Total	$3,027	$ 227	$2,871	$ 180	$ 2,780

Customer Concentration

In the fiscal years ended September 30, 2014, 2013 and 2012, one customer represented 16%, 18% and 19% of total revenues, respectively. This customer's revenues are included in the Recorded Music segment.

16. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $204 million, $206 million and $193 million during the fiscal years ended September 30, 2014, 2013 and 2012, respectively. The Company paid approximately $22 million, $26 million and $42 million of foreign income and withholding taxes, net of refunds, for the fiscal years ended September 30, 2014, 2013 and 2012, respectively. The $42 million of cash tax payments during the fiscal year ended September 30, 2012 includes a $15 million payment relating to the settlement of an income tax audit in Germany. This payment was fully reimbursed to the Company by Time Warner Inc. under the terms of the 2004 acquisition of substantially all of the interests of the recorded music and music publishing businesses of Time Warner Inc.

17. 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 September 30, 2014 and September 30, 2013.

	Fair Value Measurements as of September 30, 2014			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Liabilities:				
Contractual Obligations (b)	—	—	(2)	(2)
Other Non-Current Liabilities:				
Contractual Obligations (b)	—	—	(1)	(1)
Total	$ —	$ —	$ (3)	$ (3)

	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
Reductions	(8)
Payments	(13)
Balance at September 30, 2014	$ 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 September 30, 2014, the fair value of the Company's debt was $3.026 billion. Based on the level of interest rates prevailing at September 30, 2013, the fair value of the Company's debt was $3.060 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.

18. Subsequent Events

PLG Working Capital Adjustment

On November 21, 2014, the completion statement establishing the final purchase price of PLG was delivered to the Company. The final working capital adjustment of $38 million (£23 million) was determined and paid to Universal Music on December 8, 2014. The Company also released various net liability balances as they are settled as a result of the final completion statement. The Company has accrued for the impact of this subsequent event in its results for the year ended September 30, 2014 as it represents the culmination of the Company's previously estimated adjusted purchase price for PLG as described in Note 4.

WARNER MUSIC GROUP CORP.

2014 QUARTERLY FINANCIAL INFORMATION

(unaudited)

The following table sets forth the quarterly information for Warner Music Group Corp.

	Three months ended			
	September 30, 2014 (b)	June 30, 2014 (b)	March 31, 2014 (b)	December 31, 2013 (b)
	(in millions)			
Revenues	$771	$788	$653	$ 815
Costs and expenses:				
Cost of revenue	(393)	(417)	(319)	(441)
Selling, general and administrative expenses (a)	(287)	(319)	(273)	(293)
Amortization expense	(67)	(67)	(66)	(66)
Total costs and expenses	(747)	(803)	(658)	(800)
Operating (loss) income	24	(15)	(5)	15
Loss on extinguishment of debt	—	(141)	—	—
Interest expense, net	(46)	(48)	(54)	(55)
Other income (expense)	(1)	4	(3)	(4)
Loss before income taxes	(23)	(200)	(62)	(44)
Income tax benefit	(1)	16	3	8
Net loss	(24)	(184)	(59)	(36)
Less: income attributable to noncontrolling interest	(2)	(1)	(1)	(1)
Net loss attributable to Warner Music Group Corp.	$(26)	$(185)	$(60)	$ (37)
(a) Includes depreciation expense of:	$(16)	$(14)	$(13)	$ (12)

(b) Quarterly operating results can be disproportionately affected by a particularly strong or weak quarter. Therefore, these quarterly operating results are not necessarily indicative of the results that may be expected for the full fiscal year.

WARNER MUSIC GROUP CORP.

2013 QUARTERLY FINANCIAL INFORMATION

(unaudited)

The following table sets forth the quarterly information for Warner Music Group Corp.

	Three months ended			
	September 30, 2013 (b)	June 30, 2013 (b)	March 31, 2013 (b)	December 31, 2012 (b)
	(in millions)			
Revenues	$764	$663	$675	$ 769
Costs and expenses:				
Cost of revenue	(389)	(369)	(327)	(407)
Selling, general and administrative expenses (a)	(352)	(238)	(244)	(263)
Amortization expense	(64)	(48)	(47)	(48)
Total costs and expenses	(805)	(655)	(618)	(718)
Operating income	(41)	8	57	51
Loss on extinguishment of debt	—	(2)	—	(83)
Interest expense, net	(54)	(47)	(49)	(53)
Other (expense) income	(1)	(2)	(4)	(5)
Loss (income) before income taxes	(96)	(43)	4	(90)
Income tax (expense) benefit	39	(19)	—	11
Net (loss) income	(57)	(62)	4	(79)
Less: income attributable to noncontrolling interest	—	(1)	(2)	(1)
Net (loss) income attributable to Warner Music Group Corp.	$(57)	$(63)	$2	$ (80)
(a) Includes depreciation expense of:	$(13)	$(13)	$(12)	$ (13)

(b) Quarterly operating results can be disproportionately affected by a particularly strong or weak quarter. Therefore, these quarterly operating results are not necessarily indicative of the results that may be expected for the full fiscal year.

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 5.625% Senior Secured Notes due 2022, the 6.00% Senior Secured Notes due 2021, the 6.25% Senior Secured Notes due 2021, and the 6.75% Senior Notes due 2022 (together, the "Acquisition Corp. Notes").

The Holdings Notes are guaranteed by the Company. These guarantees are full, unconditional, joint and several. 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 (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 Company has revised its presentation for the Guarantor and Non-Guarantor Financial Information from what was filed in our Form 10-K on December 12, 2013. The Company uses the guidance under ASC Subtopic 605-45, Principal Agent Considerations, to determine when to measure revenue on a "gross" or "net" basis depending on whether the Company is acting as the "principal" in the transaction or acting as an "agent" in the transaction. The revised Consolidating Statement of Operations presentation reflects adjustments to certain revenue and expense balances to properly reflect the impact of one of the Guarantor entities acting as the principal in our digital arrangements. We have also revised the presentation of our Consolidating Balance Sheet to reflect the adjusted investment and equity balances as a result of the changes noted above in the Consolidating Statement of Operations. The principal elimination entries eliminate investments in subsidiaries and intercompany balances.

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

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

Consolidating Balance Sheet

September 30, 2014

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Assets:									
Current assets:									
Cash and equivalents	$—	$ 26	$ 131	$ —	$ 157	$ —	$ —	$ —	$ 157
Accounts receivable, net	—	174	209	—	383	—	—	—	383
Inventories	—	13	26	—	39	—	—	—	39
Royalty advances expected to be recouped within one year	—	62	40	—	102	—	—	—	102
Deferred tax assets	—	21	25	—	46	—	—	—	46
Prepaid and other current assets	5	10	40	—	55	—	—	—	55
Total current assets	5	306	471	—	782	—	—	—	782
Due (to) from parent companies	924	(242)	(682)	—	—	—	—	—	—
Investments in and advances to (from) consolidated subsidiaries	2,531	1,142	—	(3,673)	—	525	371	(896)	—
Royalty advances expected to be recouped after one year	—	115	75	—	190	—	—	—	190
Property, plant and equipment, net	—	143	84	—	227	—	—	—	227
Goodwill	—	1,379	282	—	1,661	—	—	—	1,661
Intangible assets subject to amortization, net	—	1,372	1,512	—	2,884	—	—	—	2,884
Intangible assets not subject to amortization	—	75	45	—	120	—	—	—	120
Other assets	46	10	28	—	84	6	—	—	90
Total assets	$3,506	$ 4,300	$ 1,815	$ (3,673)	$ 5,948	$ 531	$ 371	$ (896)	$ 5,954
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$38	$ 91	$ 86	$ —	$ 215	$ —	$ —	$ —	$ 215
Accrued royalties	—	531	601	—	1,132	—	—	—	1,132
Accrued liabilities	—	64	179	—	243	—	—	—	243
Accrued interest	50	—	—	—	50	10	—	—	60
Deferred revenue	—	167	52	—	219	—	—	—	219
	13	—	—	—	13	—	—	—	13

Current portion of long-term debt									
Other current liabilities	—	1	2	—	3	—	—	—	3
Total current liabilities	101	854	920	—	1,875	10	—	—	1,885
Long-term debt	2,867	—	—	—	2,867	150	—	—	3,017
Deferred tax liabilities, net	—	128	255	—	383	—	—	—	383
Other noncurrent liabilities	13	124	142	—	279	—	—	—	279
Total liabilities	2,981	1,106	1,317	—	5,404	160	—	—	5,564
Total Warner Music Group Corp. equity (deficit)	525	3,192	481	(3,673)	525	371	371	(896)	371
Noncontrolling interest	—	2	17	—	19	—	—	—	19
Total equity (deficit)	525	3,194	498	(3,673)	544	371	371	(896)	390
Total liabilities and equity (deficit)	$3,506	$ 4,300	$ 1,815	$ (3,673)	$ 5,948	$ 531	$ 371	$ (896)	$ 5,954

Consolidating Balance Sheet

September 30, 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)								
Assets:									
Current assets:									
Cash and equivalents	$—	$ 16	$ 139	$ —	$ 155	$ —	$ —	$ —	$ 155
Accounts receivable, net	—	185	326	—	511	—	—	—	511
Inventories	—	10	23	—	33	—	—	—	33
Royalty advances expected to be recouped within one year	—	59	34	—	93	—	—	—	93
Deferred tax assets	—	21	22	—	43	—	—	—	43
Prepaid and other current assets	5	8	46	—	59	—	—	—	59
Total current assets	5	299	590	—	894	—	—	—	894
Due (to) from parent companies	913	(400)	(513)	—	—	—	—	—	—
Investments in and advances to (from) consolidated subsidiaries	2,688	982	—	(3,670)	—	879	726	(1,605)	—
Royalty advances expected to be recouped after one year	—	109	64	—	173	—	—	—	173
Property, plant and equipment, net	—	101	79	—	180	—	—	—	180
Goodwill	—	1,379	289	—	1,668	—	—	—	1,668
Intangible assets subject to amortization, net	—	1,470	1,637	—	3,107	—	—	—	3,107
Intangible assets not subject to amortization	—	75	45	—	120	—	—	—	120
Other assets	68	14	21	—	103	7	—	—	110
Total assets	$3,674	$ 4,029	$ 2,212	$ (3,670)	$ 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	—	81	227	—	308	—	—	—	308
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	2	—	25	—	—	—	25
Total current liabilities	78	826	1,073	—	1,977	10	—	—	1,987
Long-term debt	2,704	—	—	—	2,704	150	—	—	2,854
Deferred tax liabilities, net	—	128	311	—	439	—	—	—	439
Other noncurrent liabilities	13	81	135	—	229	—	—	—	229
Total liabilities	2,795	1,035	1,519	—	5,349	160	—	—	5,509
Total Warner Music Group Corp. equity (deficit)	879	2,992	678	(3,670)	879	726	726	(1,605)	726
Noncontrolling interest	—	2	15	—	17	—	—	—	17
Total equity (deficit)	879	2,994	693	(3,670)	896	726	726	(1,605)	743
Total liabilities and equity (deficit)	$3,674	$ 4,029	$ 2,212	$ (3,670)	$ 6,245	$ 886	$ 726	$ (1,605)	$ 6,252

Consolidating Statement of Operations

For The Fiscal Year Ended September 30, 2014

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Revenues	$—	$ 1,498	$ 1,804	$ (275)	$ 3,027	$ —	$—	$ —	$ 3,027
Costs and expenses:									
Cost of revenue	—	(639)	(1,089)	158	(1,570)	—	—	—	(1,570)
Selling, general and administrative expenses	(1)	(633)	(655)	117	(1,172)	—	—	—	(1,172)
Amortization of intangible assets	—	(120)	(146)	—	(266)	—	—	—	(266)
Total costs and expenses	(1)	(1,392)	(1,890)	275	(3,008)	—	—	—	(3,008)
Operating (loss) income	(1)	106	(86)	—	19	—	—	—	19
Loss on extinguishment of debt	(141)	—	—	—	(141)	—	—	—	(141)
Interest income (expense), net	(102)	9	(88)	—	(181)	(22)	—	—	(203)
Equity gains (losses) from consolidated subsidiaries	(80)	113	—	(33)	—	(286)	(308)	594	—
Other income (expense), net	12	(18)	2	—	(4)	—	—	—	(4)
Income (loss) before income taxes	(312)	210	(172)	(33)	(307)	(308)	(308)	594	(329)
Income tax benefit (expense)	26	(9)	26	(17)	26	—	—	—	26
Net income (loss)	(286)	201	(146)	(50)	(281)	(308)	(308)	594	(303)
Less: income attributable to noncontrolling interest	—	(1)	(4)	—	(5)	—	—	—	(5)
Net income (loss) attributable to Warner Music Group Corp.	$(286)	$ 200	$ (150)	$ (50)	$ (286)	$ (308)	$(308)	$ 594	$ (308)

Consolidating Statement of Operations

For The Fiscal Year Ended September 30, 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	$—	$ 1,637	$ 1,511	$ (277)	$ 2,871	$ —	$—	$ —	$ 2,871
Costs and expenses:									
Cost of revenue	—	(782)	(905)	195	(1,492)	—	—	—	(1,492)
Selling, general and administrative expenses	(1)	(578)	(600)	82	(1,097)	—	—	—	(1,097)
Amortization of intangible assets	—	(118)	(89)	—	(207)	—	—	—	(207)
Total costs and expenses	(1)	(1,478)	(1,594)	277	(2,796)	—	—	—	(2,796)
Operating income (loss)	(1)	159	(83)	—	75	—	—	—	75
Loss on extinguishment of debt	(85)	—	—	—	(85)	—	—	—	(85)
Interest income (expense), net	(154)	6	(33)	—	(181)	(22)	—	—	(203)
Equity gains (losses) from consolidated subsidiaries	(10)	(40)	—	50	—	(176)	(198)	374	—
Other income (expense), net	43	(29)	(26)	—	(12)	—	—	—	(12)
Income (loss) before income taxes	(207)	96	(142)	50	(203)	(198)	(198)	374	(225)
Income tax benefit (expense)	31	—	34	(34)	31	—	—	—	31
Net income (loss)	(176)	96	(108)	16	(172)	(198)	(198)	374	(194)
Less: income attributable to noncontrolling interest	—	(2)	(2)	—	(4)	—	—	—	(4)
Net income (loss) attributable to Warner Music Group Corp.	$(176)	$ 94	$ (110)	$ 16	$ (176)	$ (198)	$ (198)	$ 374	$ (198)

Consolidating Statement of Operations

For The Fiscal Year Ended September 30, 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	$—	$ 1,489	$ 1,537	$ (246)	$ 2,780	$ —	$—	$ —	$ 2,780
Costs and expenses:									
Cost of revenue	—	(706)	(927)	178	(1,455)	—	—	—	(1,455)
Selling, general and administrative expenses	—	(546)	(545)	68	(1,023)	—	—	—	(1,023)
Amortization of intangible assets	—	(116)	(77)	—	(193)	—	—	—	(193)
Total costs and expenses	—	(1,368)	(1,549)	246	(2,671)	—	—	—	(2,671)
Operating income (loss)	—	121	(12)	—	109	—	—	—	109
Interest income (expense), net	(196)	6	(13)	—	(203)	(22)	—	—	(225)
Equity gains (losses) from consolidated subsidiaries	99	(8)	—	(91)	—	(90)	(112)	202	—
Other income (expense), net	8	—	—	—	8	—	—	—	8
Income (loss) before income taxes	(89)	119	(25)	(91)	(86)	(112)	(112)	202	(108)
Income tax benefit (expense)	(1)	(5)	(2)	7	(1)	—	—	—	(1)
Net income (loss)	(90)	114	(27)	(84)	(87)	(112)	(112)	202	(109)
Less: income attributable to noncontrolling interest	—	(1)	(2)	—	(3)	—	—	—	(3)
Net income (loss) attributable to Warner Music Group Corp.	$ (90)	$ 113	$ (29)	$ (84)	$ (90)	$ (112)	$ (112)	$ 202	$ (112)

Consolidating Statement of Comprehensive Income

For The Fiscal Year Ended September 30, 2014

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net (loss) income	$(286)	$ 201	$ (146)	$ (50)	$ (281)	$(308)	$(308)	$ 594	$ (303)
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	(41)	—	(41)	41	(41)	(41)	(41)	82	(41)
Minimum pension liability	(6)	—	(6)	6	(6)	(6)	(6)	12	(6)
Other comprehensive income (loss), net of tax:	(47)	—	(47)	47	(47)	(47)	(47)	94	(47)
Total comprehensive (loss) income	(333)	201	(193)	(3)	(328)	(355)	(355)	688	(350)
Less: income attributable to noncontrolling interest	—	(1)	(4)	—	(5)	—	—	—	(5)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$(333)	$ 200	$ (197)	$ (3)	$ (333)	$(355)	$(355)	$ 688	$ (355)

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Consolidating Statement of Comprehensive Income

For The Fiscal Year Ended September 30, 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	$(176)	$ 96	$ (108)	$ 16	$ (172)	$ (198)	$(198)	$ 374	$ (194)
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	(3)	—	(3)	3	(3)	(3)	(3)	6	(3)
Minimum Pension Liability	2	—	2	(2)	2	2	2	(4)	2
Deferred (losses) gains on derivative financial instruments	(1)	—	(1)	1	(1)	(1)	(1)	2	(1)
Other comprehensive income (loss), net of tax:	(2)	—	(2)	2	(2)	(2)	(2)	4	(2)
Total comprehensive (loss) income	(178)	96	(110)	18	(174)	(200)	(200)	378	(196)
Less: income attributable to noncontrolling interest	—	(2)	(2)	—	(4)	—	—	—	(4)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$(178)	$ 94	$ (112)	$ 18	$ (178)	$ (200)	$(200)	$ 378	$ (200)

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Consolidating Statement of Comprehensive Income

For The Fiscal Year Ended September 30, 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	$(90)	$ 114	$ (27)	$ (84)	$ (87)	$ (112)	$(112)	$ 202	$ (109)
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	(19)		(19)	19	(19)	(19)	(19)	38	(19)
Minimum Pension Liability	(7)		(7)	7	(7)	(7)	(7)	14	(7)
Other comprehensive income (loss), net of tax:	(26)	—	(26)	26	(26)	(26)	(26)	52	(26)
Total comprehensive (loss) income	(116)	114	(53)	(58)	(113)	(138)	(138)	254	(135)
Less: income attributable to noncontrolling interest	—	(1)	(2)	—	(3)	—	—	—	(3)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$(116)	$ 113	$ (55)	$ (58)	$ (116)	$ (138)	$(138)	$ 254	$ (138)

Consolidating Statement of Cash Flows

For The Fiscal Year Ended September 30, 2014

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Cash flows from operating activities									
Net (loss) income	$ (286)	$ 201	$ (146)	$ (50)	$ (281)	$ (308)	$ (308)	$ 594	$ (303)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:									
Loss on extinguishment of debt	141	—	—	—	141	—	—	—	141
Depreciation and amortization	—	160	161	—	321	—	—	—	321
Deferred income taxes	—	—	(55)	—	(55)	—	—	—	(55)
Gain on sale of assets	—	(2)	—	—	(2)	—	—	—	(2)
Non-cash interest expense	12	—	—	—	12	1	—	—	13
Non-cash share-based compensation expense	—	8	—	—	8	—	—	—	8
Equity losses (gains), including distributions	80	(113)	—	33	—	286	308	(594)	—
Changes in operating assets and liabilities:	—	—	—	—					
Accounts receivable	—	10	62	—	72	—	—	—	72
Inventories	—	(3)	(4)	—	(7)	—	—	—	(7)
Royalty advances	—	(9)	(23)	—	(32)	—	—	—	(32)
Accounts payable and accrued liabilities	—	(162)	75	—	(87)	—	—	—	(87)
Royalty payables	—	(38)	63	—	25	—	—	—	25
Accrued interest	(15)	—	—	—	(15)	—	—	—	(15)
Deferred revenue	—	107	(12)	—	95	—	—	—	95
Other balance sheet changes	(12)	(21)	(26)	15	(44)	—	—	—	(44)
Net cash provided by (used in) operating activities	(80)	138	95	(2)	151	(21)	—	—	130
Cash flows from investing activities									
	—	(16)	(10)	—	(26)	—	—	—	(26)

Acquisition of music publishing rights, net									
Capital expenditures	—	(53)	(23)	—	(76)	—	—	—	(76)
Investments and acquisitions of businesses, net	—	2	(55)	—	(53)	—	—	—	(53)
Advances to issuer	58	—	—	(58)	—	—	—	—	—
Net cash provided by (used in) investing activities	58	(67)	(88)	(58)	(155)	—	—	—	(155)
Cash flows from financing activities									
Dividend by Acquisition Corp. to Holdings Corp.	(21)	—	—	—	(21)	21	—	—	—
Proceeds from the Revolving Credit Facility	600	—	—	—	600	—	—	—	600
Repayment of the Revolving Credit Facility	(600)	—	—	—	(600)	—	—	—	(600)
Repayment of Acquisition Corp. Senior Term Loan Facility	(10)	—	—	—	(10)	—	—	—	(10)
Proceeds from issuance of Acquisition Corp. 5.625% Senior Secured Notes	275	—	—	—	275	—	—	—	275
Proceeds from issuance of Acquisition Corp. 6.750% Senior Notes	660	—	—	—	660	—	—	—	660
Repayment of Acquisition Corp. 11.5% Senior Notes	(765)	—	—	—	(765)	—	—	—	(765)
Financing costs paid	(104)	—	—	—	(104)	—	—	—	(104)
Deferred financing costs paid	(13)	—	—	—	(13)	—	—	—	(13)
Distribution to noncontrolling interest holder	—	(1)	(2)	—	(3)	—	—	—	(3)
Repayment of capital lease obligations	—	—	(3)	—	(3)	—	—	—	(3)
Change in due to (from) issuer	—	(60)	—	60	—	—	—	—	—
Net cash provided by (used in) financing activities	22	(61)	(5)	60	16	21	—	—	37
Effect of exchange rate changes on cash and equivalents	—	—	(10)	—	(10)	—	—	—	(10)
Net increase (decrease) in cash and equivalents	—	10	(8)	—	2	—	—	—	2
Cash and equivalents at beginning of period	—	16	139	—	155	—	—	—	155
Cash and equivalents at end of period	$—	$ 26	$ 131	$ —	$ 157	$—	$—	$ —	$ 157

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Consolidating Statement of Cash Flows

For The Fiscal Year Ended 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
Cash flows from operating activities									
Net (loss) income	$(176)	$ 96	$ (108)	$ 16	$ (172)	$ (198)	$ (198)	$ 374	$ (194)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:									
Loss on extinguishment of debt	85	—	—	—	85	—	—	—	85
Depreciation and amortization	—	155	103	—	258	—	—	—	258
Deferred income taxes	—	—	(73)	—	(73)	—	—	—	(73)
Non-cash interest expense	11	—	—	—	11	2	—	—	13
Non-cash share-based compensation expense	—	19	—	—	19	—	—	—	19
Equity losses (gains), including distributions	10	40	—	(50)	—	176	198	(374)	—
Changes in operating assets and liabilities:									
Accounts receivable	—	(28)	13	—	(15)	—	—	—	(15)
Inventories	—	—	(5)	—	(5)	—	—	—	(5)
Royalty advances	—	(18)	17	—	(1)	—	—	—	(1)
Accounts payable and accrued liabilities	—	(22)	95	—	73	—	—	—	73
Royalty payables	—	(22)	28	—	6	—	—	—	6
Accrued interest	(14)	—	—	—	(14)	—	—	—	(14)
Deferred revenue	—	(1)	15	—	14	—	—	—	14
Other balance sheet changes	9	4	(54)	34	(7)	—	—	—	(7)
Net cash provided by (used in) operating activities	(75)	223	31	—	179	(20)	—	—	159
Cash flows from investing activities									
	—	(33)	(4)	—	(37)	—	—	—	(37)

Acquisition of music publishing rights, net									
Capital expenditures	—	(25)	(9)	—	(34)	—	—	—	(34)
Investments and acquisitions of businesses, net	(719)	(9)	(9)	—	(737)	—	—	—	(737)
Advances to issuer	245	—	—	(245)	—	—	—	—	—
Net cash provided by (used in) investing activities	(474)	(67)	(22)	(245)	(808)	—	—	—	(808)
Cash flows from financing activities									
Dividend by Acquisition Corp. to Holdings Corp.	(12)	—	—	—	(12)	12	—	—	—
Proceeds from the Revolving Credit Facility	136	—	—	—	136	—	—	—	136
Repayment of the Revolving Credit Facility	(136)	—	—	—	(136)	—	—	—	(136)
Proceeds from Acquisition Corp. Senior Term Loan Facility	1,412	—	—	—	1,412	—	—	—	1,412
Repayment of Acquisition Corp. Senior Term Loan Facility	(110)	—	—	—	(110)	—	—	—	(110)
Proceeds from issuance of Acquisition Corp. 6.00% Senior Secured Notes	500	—	—	—	500	—	—	—	500
Repayment of Acquisition Corp. 6.00% Senior Secured Notes	(50)	—	—	—	(50)	—	—	—	(50)
Proceeds from issuance of Acquisition Corp. 6.25% Senior Secured Notes	227	—	—	—	227	—	—	—	227
Repayment of Acquisition Corp. 6.25% Senior Secured Notes	(23)	—	—	—	(23)	—	—	—	(23)
Repayment of Acquisition Corp. 9.5% Senior Secured Notes	(1,250)	—	—	—	(1,250)	—	—	—	(1,250)
Financing costs paid	(129)	—	—	—	(129)	—	—	—	(129)
Deferred financing costs paid	(60)	—	—	—	(60)	(2)	—	—	(62)
Distribution to noncontrolling interest holder	—	—	(4)	—	(4)	—	—	—	(4)

Change in due to (from) issuer	—	(245)	—	245	—	—	—	—	—
Net cash provided by (used in) financing activities	505	(245)	(4)	245	501	10	—	—	511
Effect of exchange rate changes on cash and equivalents	—	—	(9)	—	(9)	—	—	—	(9)
Net increase (decrease) in cash and equivalents	(44)	(89)	(4)	—	(137)	(10)	—	—	(147)
Cash and equivalents at beginning of period	44	105	143	—	292	10	—	—	302
Cash and equivalents at end of period	$—	$ 16	$ 139	$ —	$ 155	$ —	$—	$ —	$ 155

Consolidating Statement of Cash Flows

For The Fiscal Year Ended September 30, 2012

	WMG Acquisition Corp. (issuer) (in millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Cash flows from operating activities									
Net (loss) income	$(90)	$ 114	$ (27)	$ (84)	$ (87)	$ (112)	$ (112)	$ 202	$ (109)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:									
Depreciation and amortization	—	154	90	—	244	—	—	—	244
Deferred income taxes	—	—	(26)	—	(26)	—	—	—	(26)
Gain on sale of assets	—	(1)	—	—	(1)	—	—	—	(1)
Non-cash interest expense (income)	(3)	—	—	—	(3)	1	—	—	(2)
Equity losses (gains), including distributions	(99)	8	—	91	—	90	112	(202)	—
Changes in operating assets and liabilities:									
Accounts receivable	8	22	(46)	—	(16)	—	—	—	(16)
Inventories	—	1	—	—	1	—	—	—	1
Royalty advances	—	37	10	—	47	—	—	—	47
Accounts payable and accrued liabilities	—	(68)	112	—	44	—	—	—	44
Royalty payables	—	4	18	—	22	—	—	—	22
Accrued interest	28	—	—	—	28	6			34
Deferred revenue	—	17	(13)	—	4	—	—	—	4
Other balance sheet changes	30	(32)	(18)	(7)	(27)	—	(6)	—	(33)
Net cash provided by (used in) operating activities	(126)	256	100	—	230	(15)	(6)	—	209
Cash flows from investing activities									
Acquisition of music publishing rights, net	—	(24)	(8)	—	(32)	—	—	—	(32)
Capital expenditures	—	(22)	(10)	—	(32)	—	—	—	(32)
Investments and acquisitions of businesses, net	—	2	(8)	—	(6)	—	—	—	(6)

Proceeds from sale of building	—	12	—	—	12	—	—	—	12
Advances to issuer	180	—	—	(180)	—	—	—	—	—
Net cash provided by (used in) investing activities	180	(32)	(26)	(180)	(58)	—	—	—	(58)
Cash flows from financing activities									
Dividend by Acquisition Corp. to Holdings Corp.	(27)	—	—	—	(27)	27	—	—	—
Dividend by Holdings Corp. to Parent	—	—	—	—	—	(6)	6	—	—
Distribution to noncontrolling interest holder	—	—	(3)	—	(3)	—	—	—	(3)
Change in due to (from) issuer	—	(180)	—	180	—	—	—	—	—
Net cash provided by (used in) financing activities	(27)	(180)	(3)	180	(30)	21	6	—	(3)
Effect of exchange rate changes on cash and equivalents	—	—	—	—	—	—	—	—	—
Net increase (decrease) in cash and equivalents	27	44	71	—	142	6	—	—	148
Cash and equivalents at beginning of period	17	61	72	—	150	4	—	—	154
Cash and equivalents at end of period	$44	$ 105	$ 143	$ —	$ 292	$ 10	$—	$ —	$ 302

WARNER MUSIC GROUP CORP.

Schedule II — Valuation and Qualifying Accounts

Description	Balance at Beginning of Period	Additions Charged to Cost and Expenses	Other (a)	Deductions	Balance at End of Period
	(in millions)				
Year Ended September 30, 2014					
Allowance for doubtful accounts	$2	$ 2	$ 7	$ —	$ 11
Reserves for sales returns	53	194	—	(193)	$ 54
Allowance for deferred tax asset	296	101	—	(3)	$ 394
Year Ended September 30, 2013					
Allowance for doubtful accounts	$5	$ 3	$ —	$ (6)	$ 2
Reserves for sales returns	58	166	—	(171)	53
Allowance for deferred tax asset	244	53	—	(1)	296
Year Ended September 30, 2012					
Allowance for doubtful accounts	$—	$ 9	$ —	$ (4)	$ 5
Reserves for sales returns	40	185	—	(167)	58
Allowance for deferred tax asset	190	55	—	(1)	244

(a)Other changes due to acquisitions and dispositions.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. 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 September 30, 2014 that have materially affected, or are reasonably likely to materially affect, our Internal Controls.

Management's Report on Internal Control Over Financial Reporting

Management's report on internal control over financial reporting is located on page 81 of this report.

ITEM 9B. OTHER INFORMATION
Not Applicable

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERANCE

The following is a list of our current executive officers and directors, their ages as of December 11, 2014, and their positions and offices.

Name	Age	Position
Stephen Cooper	68	CEO and Director
Cameron Strang	48	Chairman and CEO, WBR and WCM and Director
Eric Levin	52	Executive Vice President and Chief Financial Officer
Maria Osherova	49	Executive Vice President, Human Resources
Paul M. Robinson	56	Executive Vice President and General Counsel and Secretary
Robert S. Wiesenthal	48	Chief Operating Officer/Corporate
Len Blavatnik	57	Vice Chairman of the Board
Lincoln Benet	51	Director
Alex Blavatnik	50	Director
Mathias Döpfner	51	Director
Noreena Hertz	47	Director
Thomas H. Lee	70	Director
Jörg Mohaupt	48	Director
Oliver Slipper	38	Director
Donald A. Wagner	51	Director

Our executive officers are appointed by, and serve at the discretion of, the Board of Directors. Each executive officer is an employee of the Company or one of its subsidiaries. The following information provides a brief description of the business experience of each of our executive officers and directors.

Stephen Cooper, 68, has served as a director since July 20, 2011 and as our CEO since August 18, 2011. Previously, Mr. Cooper was our Chairman of the Board from July 20, 2011 to August 18, 2011. Mr. Cooper is a member of the Supervisory Board of Directors for LyondellBasell, one of the world's largest olefins, polyolefins, chemicals and refining companies. He has more than 30 years of experience as a financial advisor, and has served as Vice Chairman and member of the office of Chief Executive Officer of Metro-Goldwyn-Mayer, Inc.; Chief Executive Officer of Hawaiian Telcom; Executive Chairman of Blue Bird Corporation; Chairman of the Board of Collins & Aikman Corporation; Chief Executive Officer of Krispy Kreme Doughnuts; and Chief Executive Officer and Chief Restructuring Officer of Enron Corporation. Mr. Cooper also served on the Board of Directors as Vice Chairman and served as the Chairman of the Restructuring Committee of LyondellBasell Industries AF S.C.A.

Cameron Strang, 48, has served as a director since July 20, 2011 and as our CEO, Warner/Chappell Music since January 4, 2011. Mr. Strang assumed the additional role of Warner/Chappell's Chairman on July 1, 2011. In addition, Mr. Strang assumed the additional roles of CEO and Chairman of Warner Bros. Records in November 2012. Previously, Mr. Strang was the founder of New West Records and of Southside Independent Music Publishing, which was acquired by Warner/Chappell in 2010. Prior to being acquired by Warner/Chappell, Southside was a leading independent music publishing company with a reputation for discovering and developing numerous talented writers, producers and artists across a wide range of genres. Southside was founded with the signing of J.R. Rotem and, in just six years, built a roster that included Elektra Records' recording artist, Bruno Mars; producer, Brody Brown;

Nashville-based writers, Ashley Gorley and Blair Daly; Christian music star, Matthew West; and Kings of Leon. Mr. Strang also co-founded DMZ Records, a joint venture record label. Mr. Strang holds a bachelor of commerce degree from the University of British Columbia and a J.D. from British Columbia Law School.

Eric Levin, 52, has served as our Executive Vice President and Chief Financial Officer since October 13, 2014. From October 2012 to June 2014, he served as the financial director of Ecolab (China) Investment Co. Ltd, a multinational technology and manufacturing group in China, from October 2012 to June 2014. From May 1988 to December 2001, he worked in various financial functions at Home Box Office, Inc., a subsidiary of Time Warner, and was promoted to CFO from January 2000 to December 2001. Thereafter and until 2011, he served in various operational and financial roles in companies in the media and publishing industry. From 2004 to 2007, he was the Co-Founder and CEO of City on Demand, LLC, a television production company. From 2009 to 2011, Mr. Levin was CFO at SCMP Group Limited, a company listed on the Hong Kong Stock Exchange, which is a leading Asia media holding company, and joined the board of The Post Publishing Public Company Limited, a company listed on the Stock Exchange of Thailand, which publishes newspapers and magazines. Mr. Levin obtained a B.S. in Electrical Engineering from the University of Pennsylvania in May 1984 and an M.B.A. in finance and economics from the University of Chicago Graduate School of Business in March 1988. Mr. Levin currently serves as a director of Forgame Holdings Limited, a company listed on the Hong Kong Stock

Exchange, which is a leading developer and publisher of webgames in China, since November 2012 where he is Chairman of the Audit and Compliance Committee and a member of the Remuneration Committee.

Maria Osherova, 49, has served as our Executive Vice President, Human Resources since July 29, 2014. Ms. Osherova joined Warner Music Group in 2006 as Vice President, Human Resources for Warner Music International, based in London. Advancing to Senior Vice President of Warner Music International, she played a pivotal role in the successful integration of Parlophone Label Group within Warner Music Group. Prior to joining Warner Music Group, Osherova was Global HR Manager for a division of Shell International Petroleum, where she headed a department responsible for employees in over 120 countries. She previously held several posts at The Coca-Cola Company, based variously in Copenhagen, Oslo, and St. Petersburg. Osherova studied at St. Petersburg State Technical University, where she was awarded a Master of Sciences degree.

Paul M. Robinson, 56, has served as our Executive Vice President and General Counsel and Secretary since December 2006. Mr. Robinson joined Warner Music Group's legal department in 1995. From 1995 to December 2006, Mr. Robinson held various positions with Warner Music Group, including Acting General Counsel and Senior Vice President, Deputy General Counsel. Before joining Warner Music Group, Mr. Robinson was a partner in the New York City law firm Mayer, Katz, Baker, Leibowitz & Roberts. Mr. Robinson has a B.A. in English from Williams College and a J.D. from Fordham University School of Law.

Robert S. Wiesenthal, 48, has served as our Chief Operating Officer/Corporate since January 2013. In January 2013, Mr. Wiesenthal joined the Company from Sony Corporation, where he served in various leadership roles including Executive Vice President & Chief Financial Officer of Sony Corporation of America; Executive Vice President, Chief Strategy Officer, Sony Entertainment Inc.; and Group Executive, Sony Corporation. He was also a member of Sony Pictures Entertainment's Operating Committee and sat on the Board of Directors for Sony Music Entertainment and Sony Ericsson. He was responsible for all financial aspects of Sony Corporation of America across its entertainment companies, and led Sony's corporate development and mergers and acquisitions efforts including the transaction to buy Bertelsmann out of its stake in Sony Music Entertainment's recorded music joint venture in 2008. Prior to joining Sony in 2000, he was Managing Director and Head of Entertainment & Digital Media, Investment Banking for Credit Suisse First Boston. He also serves on the Board of Directors for Entercom Communications Corp., Starz, Jawbone and TripAdvisor Inc. and is a mentor at TechStars, a digital startup accelerator. Mr. Wiesenthal graduated from the University of Rochester, receiving a B.A. degree cum laude in Political Science in 1988.

Len Blavatnik, 57, has served as a director and as Vice Chairman of the Board of Warner Music Group since July 20, 2011. Mr. Blavatnik is the founder and Chairman of Access, a privately held, U.S. industrial group with strategic investments in the U.S., Europe and South America. Mr. Blavatnik is a director of numerous companies in the Access portfolio, including UC RUSAL, plc. He previously served as a member of the board of directors of Warner Music Group from March 2004 to January 2008. Mr. Blavatnik provides financial support to and remains engaged in many educational pursuits, in 2010 committing £75 million to establish the Blavatnik School of Government at the University of Oxford. He is a member of boards at Oxford University and Tel Aviv University, and is a member of Harvard University's Global Advisory Council and the Board of Trustees and the Board of Dean's Advisors at Harvard Business School. Mr. Blavatnik and the Blavatnik Family Foundation have also been generous supporters of leading cultural and charitable institutions throughout the world. Mr. Blavatnik is a member of the board of directors of the 92nd Street Y in New York, The Mariinsky Foundation of America, The Carnegie Hall Society, Inc. and The Center for Jewish History in New York. He is also a member of the Board of Governors of The New York Academy of Sciences and a Trustee of the State Hermitage Museum in St. Petersburg, Russia. Mr. Blavatnik emigrated to the U.S. in 1978 and became a U.S. citizen in 1984. He received his Master's degree from Columbia University in 1981 and his M.B.A from Harvard Business School in 1989. Mr. Blavatnik is the brother of Alex Blavatnik.

Lincoln Benet, 51, has served as a director since July 20, 2011. Mr. Benet is the Chief Executive Officer of Access. Prior to joining Access in 2006, Mr. Benet spent 17 years at Morgan Stanley, most recently as a Managing Director. His experience spanned corporate finance, mergers and acquisitions, fixed income and capital markets. Mr. Benet is a member of the boards of Acision B.V, Boomerang Tube, LLC and Clal Industries Ltd. Mr. Benet graduated summa cum laude with a B.A. in Economics from Yale University and received his M.B.A. from Harvard Business School.

Alex Blavatnik, 50, has served as a director since July 20, 2011. Mr. Blavatnik is an Executive Vice President and Deputy Chairman of Access. A 1993 graduate of Columbia University, Mr. Blavatnik joined Access in 1996 to manage the company's growing activities in Russia. Currently, he oversees Access' operations out of its New York-based headquarters and serves as a director of various companies in the Access global portfolio. In addition, Mr. Blavatnik is engaged in numerous philanthropic pursuits and sits on the boards of several educational and charitable institutions. Mr. Blavatnik is the brother of Len Blavatnik.

Mathias Döpfner, 51, has served as a director since May 1, 2014. Mr. Döpfner is Chairman and CEO of Axel Springer SE in Berlin. He has been with Axel Springer AG since 1998, initially as Editor-in-Chief of Die Welt and since 2000 as Member of the Management Board. During his career he has held different positions in media companies. Among others he was Editor-in-Chief of the newspapers Wochenpost and Hamburger Morgenpost. At Gruner+Jahr he was Assistant to the CEO in Hamburg and on the staff of the Head of International Business in Paris. Mr. Döpfner has also worked as author and Brussels based correspondent for Frankfurter Allgemeine Zeitung. He studied Musicology, German and Theatrical Arts in Frankfurt and Boston. He is a Member of the Board of Directors of Time Warner Inc., Member of the Board of Directors of RHJ International SA and holds several honorary offices, among others at the American Academy, the American Jewish Committee and the European Publishers Council (EPC). In 2010 he was Visiting Professor in Media at the University of Cambridge and became a member of St. John’s College.

Noreena Hertz, 47, has served as a director since May 1, 2014. Ms. Hertz advises some of the biggest organizations and most senior figures in the world on strategy, decision-making, corporate social responsibility and global economic and geo-political trends. Her best-selling books, Eyes Wide Open, the Silent Takeover and IOU: The Debt Threat, have been published in 20 countries. Professor Hertz served as a member of Citigroup’s Politics and Economics Global Advisory Board between 2007 and 2008 and as a member of the Advisory Group steering McKinsey CEO Dominic Barton’s Inclusive Capitalism Taskforce between 2012 and 2013. She is also a Trustee of the UK think tank IPPR. A much sought-after commentator on television and radio Hertz contributes to a wide range of publications and networks including The BBC, CNN, CNBC, CBS, The New York Times, The Wall Street Journal, The Daily Beast, the Financial Times, the Guardian, The Washington Post, The Times of London, Wired, and Nature. She has given Keynote Speeches at TED and The World Economic Forum, as well as for leading global corporations, and has shared platforms with such luminaries as President Bill Clinton and James Wolfensohn. An influential economist on the international stage, Hertz also played a pivotal role in the development of (RED), an innovative commercial model to raise money for people with AIDS in Africa, having inspired Bono (co-founder of the project) with her writings. Professor Hertz has been described by the Observer as “one of the world’s leading young thinkers,” Vogue as “one of the world’s most inspiring women” and was featured on the cover of Newsweek’s September 30, 2013 issue in Europe, Asia and the Middle East. She has an M.B.A from the Wharton School of the University of Pennsylvania and a Ph.D. from the University of Cambridge. Having spent 10 years at the University of Cambridge as Associate Director of the Centre for International Business and Management, in 2014 she moved to University College London where she is Honorary Professor at the Centre for the Study of Decision-Making.

Thomas H. Lee, 70, has served as a director since August 17, 2011. Mr. Lee had previously served as our director from March 4, 2004 to July 20, 2011. He is Chairman and CEO of Thomas H. Lee Capital, LLC, Thomas H. Lee Capital Management, LLC and Lee Equity Partners, LLC. Lee Equity Partners, LLC is engaged in the private equity business in New York City. In 1974, Mr. Lee founded the Thomas H. Lee Company, the predecessor of Thomas H. Lee Partners, L.P., and from that time until March 2006 served as its Chairman and CEO. From 1966 through 1974, Mr. Lee was with First National Bank of Boston where he directed the bank’s high technology lending group from 1968 to 1974 and became a Vice President in 1973. Prior to 1966, Mr. Lee was a securities analyst in the institutional research department of L.F. Rothschild in New York. Mr. Lee serves or has served, including during the past five years, as a director of numerous public and private companies in which he and his affiliates have invested, including MidCap Financial LLC, Papa Murphy’s International, LLC, Edelman Financial Services, LLC and Aimbridge Hospitality Holdings LLC. Mr. Lee is currently a Trustee of Lincoln Center for the Performing Arts, The Museum of Modern Art, NYU Medical Center, the Whitney Museum of American Art and Jazz at Lincoln Center among other civic and charitable organizations. He also serves on the Executive Committee for Harvard University’s Committee on University Resources. Mr. Lee is a 1965 graduate of Harvard College.

Jörg Mohaupt, 48, has served as a director since July 20, 2011. Mr. Mohaupt has been associated with Access since May 2007, and is involved with Access’ activities in the media and communications sector. Mr. Mohaupt was a managing director of Providence Equity Partners and a member of the London-based team responsible for Providence’s European investment activities. Before joining Providence, in 2004, he co-founded and managed Continuum Group Limited, a communications services venture business. Prior to this, Mr. Mohaupt was an executive director at Morgan Stanley & Co. and Lehman Brothers in their respective media and telecommunications groups. Mr. Mohaupt serves on the boards of Audeze LLC, Perform Group Plc, AINMT Holdings, Gettaxi Ltd, Deezer, ULE, Sentient Technologies, and Acision B.V. Mr. Mohaupt graduated with a degree in history from Rijksuniversiteit Leiden (Netherlands) and a degree in Communications Science from Universiteit van Amsterdam.

Oliver Slipper, 38, has served as a director since May 1, 2014. Mr. Slipper was appointed to the Board of Perform Group plc in August 2007 and currently serves as Joint-CEO. Together with Simon Denyer, Joint-CEO of Perform, Mr. Slipper took the business public, achieving a listing on the London Stock Exchange in 2011, with a market capitalization of over £500 million. Previously he was the Chief Executive Officer of Premium TV until its amalgamation with Inform Group in 2007 to create Perform. Mr. Slipper joined Premium TV in 2001 as Commercial Manager. In 2005, he was appointed Chief Executive Officer. Prior to Premium TV, Mr. Slipper worked at Accenture within the Media and Entertainment team, where he worked for clients including Cable & Wireless, NTL and Sony Playstation advising on digital strategies. He holds a BA (Hons) in Classical Studies from Manchester University. He also serves on the Board of Surrey County Cricket Club and is a Patron of the Zoological Society of London.

Donald A. Wagner, 51, has served as a director since July 20, 2011. Mr. Wagner is a Managing Director of Access, having been with Access since 2010. He is responsible for sourcing and executing new investment opportunities in North America. From 2000 to 2009, Mr. Wagner was a Senior Managing Director of Ripplewood Holdings L.L.C., responsible for investments in several areas and heading the industry group focused on investments in basic industries. Previously, Mr. Wagner was a Managing Director of Lazard Freres & Co. LLC and had a 15-year career at that firm and its affiliates in New York and London. He is a board member of EP Energy and of Boomerang Tube and was on the board of NYSE-listed RSC Holdings from November 2006 until August 2009. Mr. Wagner graduated summa cum laude with an A.B. in physics from Harvard College.

Board of Directors

Our business and affairs are managed under the direction of our Board of Directors. Our Board of Directors currently consists of eleven members. Under our amended and restated certificate of incorporation and by-laws, our Board of Directors shall consist of such number of directors as determined from time to time by resolution adopted the Board. Our directors hold office until their successors have been elected and qualified or until the earlier of their resignation or removal.

When considering whether directors have the experience, qualifications, attributes or skills, taken as a whole, to enable the Board of Directors to satisfy its oversight responsibilities effectively in light of our business and structure, the Board of Directors focuses primarily on each person’s background and experience as reflected in the information discussed in each of the directors’ individual biographies set forth above. In the view of the Board of Directors, its directors provide an appropriate mix of experience and skills relevant to the size and nature of our business. In particular, each of our directors brings specific experience, qualifications, attributes and skills to our Board of Directors.

The directors affiliated with Access, Messrs. Len Blavatnik, Benet, Alex Blavatnik, Mohaupt and Wagner, each bring beneficial experience and attributes to our Board. Len Blavatnik has extensive experience advising companies, particularly as founder and Chairman of Access, in his role as a director of TNK-BP Limited and UC RUSAL, and as a director of Warner Music Group Corp. Mr. Benet has extensive experience in corporate finance, mergers and acquisitions, fixed income and capital markets through his work at Morgan Stanley and Access. Alex Blavatnik has extensive experience advising companies, particularly as Deputy Chairman of Access and as a director of OGIP Ventures, Ltd. Mr. Mohaupt has served as a director of various companies and has extensive experience in corporate finance, mergers and acquisitions, fixed income and capital markets through his work at Providence Equity Partners, Morgan Stanley, Lehman Brothers and Access. Mr. Wagner has served as a director of various companies, including public companies, and has over 25 years of experience in investing, banking and private equity. In addition to their individual attributes, each of them possess experience in advising and managing publicly traded and privately held enterprises and is familiar with the corporate finance and strategic business planning activities that are unique to highly leveraged companies like us.

Mr. Cooper has more than 30 years of experience as a financial advisor, and has served as chairman or chief executive officer of various businesses, including Vice Chairman and member of the office of Chief Executive Officer of Metro-Goldwyn-Mayer, Inc. and Chief Executive Officer of Hawaiian Telcom.

Mr. Strang is actively involved in managing the day-to-day business of our company, providing him with intimate knowledge of our operations, and has significant experience and expertise with companies in our lines of business.

Mr. Döpfner has extensive experience in the news publishing industry. Through his positions as CEO & chairman, executive board member (Newspaper division) of Axel Springer SE and editor in chief of DIE WELT, Mr. Döpfner has developed insights both in operational and strategic activities at Europe’s biggest and leading digital publishers.

Professor Hertz has over 25 years of experience in advising companies in a variety of sectors and geographies on strategic and policy decisions, intelligence gathering and analysis and stakeholder management and corporate social responsibility. Ms. Hertz has also held senior academic positions at leading business schools in the UK and the Netherlands (Judge Business School, University of Cambridge; Rotterdam School of Management, Erasmus University) where her research has focused on decision-making, risk assessment and management, globalization, innovation, and corporate social responsibility.

Mr. Lee has extensive experience advising and managing companies, serving as the Chairman and CEO of Thomas H. Lee Capital, LLC, Thomas H. Lee Capital Management, LLC and Lee Equity Partners, LLC and serving as or having served as a director of numerous public and private companies. Mr. Lee was also part of the investor group that acquired our Company from Time Warner in the 2004 Acquisition and was a director of the Company from March 2004 until July 2011, before subsequently rejoining the Board in August 2011, and has a detailed understanding of our Company.

Mr. Slipper is a CEO of a digital media company.

Our board believes that the qualifications described above bring a broad set of complementary experience, coupled with a strong alignment with the interests of the stockholder of the Company, to the Board’s discharge of its responsibilities.

Committees of the Board of Directors

Following consummation of the Merger, we became a privately held company. As a result, we are no longer subject to any stock exchange listing or SEC rules requiring a majority of our Board of Directors to be independent or relating to the formation and functioning of the various Board committees. The Board of Directors of the Company has an Audit Committee as well as a Compensation Committee, both of which report to the Board of Directors as they deem appropriate, and as the Board may request. Affiliates of Access own 100% of our common stock and have the power to elect our directors. Thus the Board has determined that it is not necessary for us to have a Nominating Committee or a committee performing similar functions. The Board of Directors does not have a policy with regard to the consideration of any director candidates recommended by our debt holders or other parties.

The Audit Committee is responsible for overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company and its subsidiaries. The Audit Committee is responsible for assisting the Board's oversight of (a) the quality and integrity of the Company's financial statements and related disclosure; (b) the independent auditor's qualifications and independence; (c) the evaluation and management of the Company's financial risks; (d) the performance of the Company's internal audit function and independent auditor; and (e) the Company's compliance with legal and regulatory requirements. The Audit Committee's duties include, when appropriate, as permitted under applicable law, amending or supplementing the Company's Delegation of Authority Policy without the prior approval of the Board. The current members of the Company's audit committee are Messrs. Wagner, Benet and Lee. Mr. Wagner serves as the chairman of the committee. Messrs. Benet and Wagner qualify as "audit committee financial experts," as defined by Securities and Exchange Commission Rules, based on their education, experience and background.

The Compensation Committee discharges the responsibilities of the Board of Directors of the Company relating to all compensation, including equity compensation, of the Company's executives. The Compensation Committee has overall responsibility for evaluating and making recommendations to the Board regarding director and officer compensation, compensation under the Company's long-term incentive plans and other compensation policies and programs. The current members of the Company's Compensation Committee are Messrs. Benet, Lee, Mohaupt and Wagner and Len Blavatnik. Mr. Benet serves as the chairman of the committee.

Oversight of Risk Management

On behalf of the Board of Directors, our Audit Committee is responsible for oversight of the Company's risk management and assessment guidelines and policies. The Company is exposed to a number of risks including financial risks, operational risks and risks relating to regulatory and legal compliance. The Audit Committee discusses with management and the independent auditors the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the guidelines and policies to govern the process by which risk assessment and risk management are undertaken. The Company's Chief Compliance Officer and Head of Internal Audit are responsible for the Company's risk management function and regularly work closely with the Company's senior executives to identify risks material to the Company. Both the Chief Compliance Officer and the Head of Internal Audit report regularly to the Chief Financial Officer, the Chief Executive Officer and the Audit Committee regarding the Company's risk management policies and procedures. In that regard, both the Chief Compliance Officer and Head of Internal Audit regularly meet with the Audit Committee to discuss the risks facing the Company, highlighting any new risks that may have arisen since they last met. The Audit Committee also reports to the Board of Directors on a regular basis to apprise them of their discussions with the Chief Compliance Officer and Head of Internal Audit regarding the Company's risk management efforts. In addition, the Board of Directors receives management updates on our business operations, financial results and strategy and, as appropriate, discusses and provides feedback with respect to risks related to those topics.

Section 16(a) Beneficial Ownership Reporting Compliance

Subsequent to the consummation of the Merger, as the Company no longer has a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934, none of its directors, officers or stockholders are subject to the reporting requirements of Section 16(a) of the Exchange Act.

Code of Conduct

The Company has adopted a Code of Conduct as our “code of ethics” as defined by regulations promulgated under the Securities Act of 1933, as amended (the “Securities Act of 1933”), and the Securities Exchange Act of 1934 (and in accordance with the NYSE requirements for a “code of conduct”), which applies to all of the Company’s directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A current copy of the Code of Conduct is available on the Company’s website at www.wmg.com by clicking on “Investor Relations” and then on “Corporate Governance.” A copy of the Code of Conduct may also be obtained free of charge, from the

Company upon a request directed to Warner Music Group Corp., 1633 Broadway, New York, NY 10019, Attention: Investor Relations. The Company will disclose within four business days any substantive changes in or waivers of the Code of Conduct granted to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by posting such information on our website as set forth above rather than by filing a Form 8-K.

ITEM 11. EXECUTIVE COMPENSATION
Compensation Discussion and Analysis

This compensation discussion and analysis provides information about the material elements of compensation that are paid, awarded to, or earned by our "named executive officers," who consist of our principal executive officer, principal financial officer and our three other most highly compensated executive officers for fiscal year 2014. Our named executive officers ("NEOs") for fiscal year 2014 are:

Stephen Cooper (our CEO);
Brian Roberts (our CFO during fiscal year 2014);
Cameron Strang;
Paul M. Robinson; and
Robert S. Wiesenthal.

Mr. Roberts was an NEO during fiscal 2014. As previously announced, Eric Levin has been appointed by the Company's Board of Directors to serve as the Company's Executive Vice President and Chief Financial Officer. Mr. Levin succeeded Mr. Roberts who has moved to a newly created position on the Company's senior management team as Executive Vice President, Corporate Strategy and Operations. Both appointments were effective as of October 13, 2014.

Role of the Compensation Committee

The Compensation Committee is responsible for overseeing our compensation programs. As part of that responsibility, the Compensation Committee determines all compensation for the Company's executive officers (other than our CEO). For executive officers other than the CEO, the Compensation Committee considers the recommendation of the CEO and the Executive Vice President, Human Resources in making its compensation determinations. The Committee interacts regularly with management regarding our executive compensation initiatives and programs. The Compensation Committee has the authority to engage its own advisors and had done so prior to the consummation of the Merger. However, during fiscal year 2014, no independent compensation advisor provided any advice or recommendations on the amount or form of executive and director compensation to the Compensation Committee and since the consummation of the Merger, we have not retained a compensation consultant to assist in determining or recommending the amount or form of executive compensation. The Compensation Committee may elect in the future to retain a compensation consultant if it determines that doing so would assist it in implementing and maintaining our compensation programs.

Our executive team consists of individuals with extensive industry expertise, creative vision, strategic and operational skills, in-depth company knowledge, financial acumen and high ethical standards. We are committed to providing competitive compensation packages to ensure that we retain these executives and maintain and strengthen our position as a leading global music-based content company. Our executive compensation programs and the decisions made by the Compensation Committee are designed to achieve these goals. The compensation for the Company's NEOs (the executive officers for whom disclosure of compensation is provided in the tables below other than our current CEO) consists of base salary and annual bonuses. In addition, all of our NEOs, other than Mr. Robinson, have elected to participate in the Amended and Restated Warner Music Group Corp. Senior Management Free Cash Flow Plan (the "Plan"), our long-term incentive program. The NEOs do not receive any other compensation or benefits other than standard benefits available to all U.S. employees, which primarily consist of health plans, the opportunity to participate in the Company's 401(k) and deferred compensation plans, basic life insurance and accidental death insurance coverage.

In determining the compensation of the NEOs (other than our current CEO), the Compensation Committee seeks to establish a level of compensation that is (a) appropriate for the size and financial condition of the Company,

(b) structured so as to attract and retain qualified executives and (c) tied to annual financial performance and long-term shareholder value creation.

Access has a consulting agreement with Mr. Cooper pursuant to which he receives $166,667 a month and reimbursement of his related expenses in connection with his role as CEO of the Company. The Company reimburses Access for these amounts pursuant to the Management Agreement. The Company does not have any other employment arrangement with Mr. Cooper, but he participates in the Plan. The Company has entered into employment arrangements with each of our other Named Executive Officers, which establish each executive's base salary and for Messrs. Roberts, Strang and Wiesenthal their entitlement to a percentage of our annual free cash flow under the Plan and, in the case of Mr. Robinson, his annual bonus.

Executive Compensation Objectives and Philosophy

We design our executive compensation programs to attract talented executives to join the Company and to motivate them to position us for long-term success, achieve superior operating results and increase stockholder value. To realize these objectives, the Compensation Committee and management focus on the following key factors when considering the amount and structure of the compensation arrangements for our executives:

Alignment of executive and stockholder interests by providing incentives linked to operating performance and achievement of cash flow and strategic objectives. We are committed to creating stockholder value and believe that our executives and employees should be provided incentives through our compensation programs that align their interests with those of our stockholders. Accordingly, we provide our executives with annual cash bonus incentives linked to our operating performance. In addition, in 2013, we adopted the Plan, which, as described below, is an incentive compensation program that pays annual bonuses based on our free cash flow and offers participants the opportunity to share in appreciation of our common stock. For information on the components of our executive compensation programs and the reasons why each is used, see "Components of Executive Compensation" below.

A clear link between an executive's compensation and Company-wide performance. Most of our NEOs and some of our other senior executives have elected to participate in the Plan. As further discussed below, the Plan, which is a significant part of our executive compensation program, is designed to reward our executives' contributions to our free cash flow and long-term value. For other executives, their compensation is designed to reward their achievement of specified key goals, which include, among other things, the successful implementation of strategic initiatives, realizing superior operating and financial performance, and other factors that we believe are important, such as the promotion of an ethical work environment and teamwork within the Company. We believe our compensation structure motivates our executives to achieve these goals and rewards them for their significant efforts and contributions to the Company and the results they achieve.

The extremely competitive nature of the media and entertainment industry, and our need to attract and retain the most creative and talented industry leaders. We compete for talented executives in relatively high-priced markets, and the Compensation Committee takes this into consideration when making compensation decisions. For example, we compete for executives with other recorded music and music publishing companies, other entertainment, media and technology companies, law firms, private ventures, investment banks and many other companies that offer high levels of compensation. We believe that our senior management team is among the best in the industry and is the right team to lead us to long-term success. Our commitment to ensuring that we are led by the right executives is a high priority, and we make our compensation decisions accordingly.

Components of Executive Compensation

Employment Arrangements

With the exception of Mr. Cooper as described above, we have employment arrangements or letters with all of our NEOs, the key terms of which are described below under "Summary of NEO Employment Arrangements." We believe that having employment arrangements with our executives can be beneficial to us because it provides retentive value, requires them to comply with key restrictive covenants, and may give us some competitive advantage in the recruiting process over a company that does not offer employment arrangements. Our employment arrangements set forth the terms and conditions of employment and establish the components of an executive's compensation, which generally include the following:

Base salary;
Participation in the free cash flow bonus pool of the Plan or a discretionary or target annual cash bonus;
Severance payable upon a qualifying termination of employment; and
Benefits, including participation in our 401(k) plan and health, life insurance and disability insurance plans.

In December 2012, in connection with their becoming participants in the Plan, Messrs. Roberts, Strang and Wiesenthal elected to enter into new simplified employment letters that replaced their pre-existing employment arrangements with the Company and its subsidiaries. In contrast to their pre-existing employment arrangements, these new employment letters provide for at-will employment (where permitted by applicable law) and that participation in the free cash flow bonus pool of the Plan is the participant’s only bonus entitlement from the Company and its subsidiaries in respect of 2013 and future years. In addition, the employment letter entered into by Messrs. Roberts, Strang and Wiesenthal provided for annual salary equal to the participant’s then-current base salary (or, for Mr. Strang, an increase in annual salary to $2,250,000), a right to participate in the Plan, a right to fringe benefits generally available to Company employees of a similar level and a right to a severance payment to the participant on his or her termination of employment by the Company without "cause" or by the participant for "good reason" (as such terms are defined in the employee letter).

Key Considerations in Determining Executive Compensation

The following describes the components of our NEO compensation arrangements and why each is included in our executive compensation programs.

Base Salary

The cash base salary an NEO receives is determined by the Compensation Committee after considering the individual's compensation history, the range of salaries for similar positions, the individual's expertise and experience, and other factors the Compensation Committee believes are important, such as whether we are trying to attract the executive from another opportunity. The Compensation Committee believes it is appropriate for executives to receive a competitive level of guaranteed compensation in the form of base salary and determines the initial base salary by taking into account recommendations from management and, if deemed necessary, the Compensation Committee's independent compensation consultant.

Mr. Cooper was paid based on a consulting agreement with Access as described above in fiscal year 2014. Each of our other NEOs was paid base salary in accordance with the terms of their respective employment arrangement for fiscal year 2014. In fiscal year 2013, the Compensation Committee approved increases in Mr. Roberts' base salary to $650,000 and Mr. Strang's base salary to $2,250,000. In 2013, we were also notified by Access that it had increased Mr. Cooper's annual base compensation to $2,000,000. The Compensation Committee increased the base salaries for Mr. Roberts to $750,000 and for Mr. Robinson to $700,000, both effective January 1, 2014.

Annual Cash Bonus

Our Compensation Committee directly links the amount of the annual cash bonuses we pay to our financial performance for the particular year. With the exception of Mr. Robinson, each of our NEOs has elected to participate in the annual free cash flow bonus pool in the Plan, as described below.

Annual Free Cash Flow Bonus Pool

All of our NEOs (other than Mr. Robinson) have elected to participate in the Plan, which is also a non-qualified deferred compensation plan that allows the participants to defer receipt of all or a portion of their annual bonuses until future dates prescribed by the Plan. The Plan became effective on January 1, 2013 and replaced for participating employees (other than the CEO to whom it was not applicable), their participation in our bonus plan based on OIBDA and other performance measures. Our Compensation Committee adopted the Plan to, among other reasons, reinforce a partnership culture with our executives, by allowing them to participate in our short-term performance (in the form of annual free cash flow bonuses) and long-term performance (in the form of deferred compensation that is indexed to the value of our common stock and with grants of Profits Interests, as described below under "Long-Term Incentives"). We believe it is important for our executives and shareholders to be motivated to work together towards shared financial and operational goals. In addition, our Compensation Committee considered that the Plan offers our executives the opportunity for tax-efficient wealth management creation based on our performance.

The Plan provides for the annual allocation of up to 7.5% of the Company's consolidated "free cash flow" to participating employees. For purposes of the Plan, "free cash flow" is defined as the Company's consolidated cash flow, without any double counting, from operating activities determined in accordance with generally accepted accounting principles, less capital expenditures, cash paid or received for investments, working capital changes (meaning the change in current assets over current liabilities during the plan year), interest payments and cash taxes, and plus Access management fees. For any Plan year, the Compensation Committee may increase or decrease the amount of free cash flow to take into account material purchases or payments made by the Company, and may increase (such increase, an “added investment amount”) the amount of free cash flow to take into account net cash paid for all or any portion of any investments and add back any other items deducted from consolidated cash flow as provided above. Each Plan participant is awarded a fixed percentage of this free cash flow. The Compensation Committee may increase a participant’s allocated fixed percentage of free cash flow at any time, subject to whatever terms and conditions the Compensation Committee determines shall apply to such increase. The Compensation Committee may also reduce the amount of the annual free cash flow bonus payable to a participant by all or any portion of any unrecovered added investment amount allocated to the participant.

In connection with their election to participate in the Plan in fiscal year 2013, Messrs. Cooper, Strang, Roberts and Wiesenthal were awarded fixed percentages of free cash flow of 1.5%, 0.925%, 0.19% and 0.10%, respectively. The Company’s free cash flow for the 2013 fiscal year was $153 million. In addition, as described below under "Long-Term Equity Incentives—Warner Music Group Corp. Senior Management Cash Flow Plan—Deferral of Compensation under the Plan," in December 2013, the Compensation Committee awarded additional deferred compensation to each of them to offset the impact of the $54 million of investments that were funded through fiscal year 2013 free cash flow. Accordingly, for fiscal year 2013, taking into account this additional deferred compensation, Messrs. Cooper, Roberts, Strang and Wiesenthal earned bonuses of $3,090,000, $391,400, $1,905,000 and $206,000, respectively. Beginning with fiscal year 2014, the percentages of free cash flow allocated to Messrs. Strang and Wiesenthal increased to 1% and 0.25%, respectively, to further incentivize and reward them. Accordingly, for fiscal year 2014, Messrs. Cooper, Strang, Roberts and Wiesenthal earned bonuses of $810,000, $539,987, $102,600 and $134,987, respectively.

As described below, participants in the Plan are eligible to defer a portion of their annual free cash flow bonuses and, in doing so, to acquire equity interests representing shares of our common stock. Each of Messrs. Cooper, Roberts, Strang and Wiesenthal elected to defer 75% of his free cash flow bonus earned from the 2013 fiscal year and 100% of his free cash flow bonus earned from the 2014 fiscal year. As noted above, in December 2013, the Compensation Committee also awarded additional unvested deferred equity units to each of such officers under the Plan to offset the impact of certain investments that were funded through fiscal year 2013 free cash flow (but this special award did not increase their maximum allocation of deferred equity units under the Plan). These special deferred equity units granted in December 2013 will vest, subject to such officer's continued employment, on the later of December 31, 2015 and the date, if any, when such officer acquires his maximum allocation of deferred equity units under the Plan.

The portion of the free cash flow bonus that was paid in cash for fiscal year 2013 is set forth below in the "Non-Equity Incentive Plan Compensation" column of the Summary Compensation Table. In addition, with respect to the 2013 fiscal year only, Mr. Wiesenthal was paid an additional annual cash bonus in the amount of $500,000. For Messrs. Cooper, Strang, Roberts and Wiesenthal, the 2014 free cash flow bonus will be deferred into the Plan.

Discretionary Bonuses

Mr. Robinson has elected not to participate in the Plan, and he has an annual target bonus amount of $550,000 set forth in his employment agreement. The actual amount of Mr. Robinson's annual bonus is determined by the Compensation Committee in its sole discretion and may be higher or lower than the target range or amount. The amount of Mr. Robinson's bonus for fiscal year 2014 is set forth below under the "Bonus" column in the Summary Compensation Table.

For Mr. Robinson, the Compensation Committee considered the recommendation of the CEO and the Executive Vice President, Human Resources in making its bonus determination. The bonus for Mr. Robinson was based on the target bonus set forth in his employment agreement, corporate performance and other discretionary factors, including achievement of strategic objectives, goals in compliance and ethics and teamwork within the Company. A variety of qualitative and quantitative factors that vary by year and are given different weights in different years depending on facts and circumstances were considered, with no single factor material to the overall bonus determination. The factors considered by the Compensation Committee in connection with Mr. Robinson's fiscal year 2014 bonus are discussed in more detail below.

In fiscal year 2014, after considering the factors described above and management's recommendations, the Compensation Committee determined that the bonus for Mr. Robinson would be set at an amount equal to 41% of the annual target bonus amount set forth in his employment agreement. This reflected the Compensation Committee's and management's assessment that overall corporate performance and discretionary factors justified payment of such bonus to him based on his and the Company's performance during the fiscal year. Specifically, the Compensation Committee set the amount of his bonus after considering the quality of his individual performance in running the company-wide legal and business affairs function. See "Summary of NEO Employment Agreements" below for further details.

In making the bonus determination for Mr. Robinson, other qualitative factors taken into account included performance in internal and public financial reporting, budgeting and forecasting processes, compliance and infrastructure, investment and cost-savings initiatives. Non-financial factors considered also included, among other items, providing strategic leadership and direction for the Company, including corporate governance matters, managing the strategic direction of the Company, increasing operational efficiency, expanding our digital presence and communicating to investors and other important constituencies.

Long-Term Equity Incentives

Warner Music Group Corp. Senior Management Cash Flow Plan

As noted above, all our NEOs (other than Mr. Robinson) have elected to participate in the Plan. In addition to providing an annual bonus that is based on a percentage of the Company’s free cash flow, as described above, the Plan provides its participants with the opportunity to defer all or a portion of their free cash flow bonuses and receive grants of equity interests.

Deferral of Compensation under the Plan

Each participating employee in the Plan is permitted to irrevocably elect to defer between 50% and 100% of his or her annual free cash flow bonus earned for periods beginning on January 1, 2013 (up to a maximum aggregate deferral amount determined by the Compensation Committee). The Compensation Committee may also make additional awards of deferred equity under the plan or require that all or any portion of futures awards of additional free cash flow bonus percentages and/or added investment amounts be deferred under the Plan. Except that for 2013 no more than 75% of the annual bonus was deferred under the terms of the Plan, each of Messrs. Cooper, Roberts, Strang and Wiesenthal elected to defer 100% of his annual bonus under the Plan.

No more than 3.75% of our common stock on a fully-diluted basis may be outstanding under the Plan at any time as settlement for deferred annual bonuses or at any time be underlying Acquired LLC Units (as defined below). The Plan is intended to allow participating employees to defer the payment of current compensation to future years for tax and financial planning purposes.

Deferred amounts, if any, will be credited to a participant's account as and when a deferred bonus is earned and indexed to the fair market value of a share of our common stock (as determined from time to time by the Compensation Committee), except that the initial value of deferred amounts at the time of deferral will be based on our fair market value as of January 1, 2013. Non-elective deferrals will be subject to such terms and conditions, including vesting, as the Compensation Committee shall determine in its sole discretion. The individual amounts that will be deferred in respect of the 2014 fiscal year for each of Messrs. Cooper, Strang, Roberts and Wiesenthal is $810,000, $539,987, $102,600 and $134,987, respectively. In addition, in December 2013, the Compensation Committee determined to award additional deferred compensation in the amounts of $810,000, $102,600, $499,500 and $54,000 to each of Messrs. Cooper, Roberts, Strang and Wiesenthal, respectively, to offset the impact of $54 million of investments that were funded through fiscal year 2013 free cash flow.

Amounts deferred under the Plan will be settled in three equal installments in December 2018, 2019 and 2020 ("Redemption Dates"), so long as participants have deferred their maximum deferred amounts prior to January 1, 2017. All remaining amounts will be settled in December 2020. Deferred accounts will be settled at the participants' election, in shares of our common stock or with a cash payment equal to the then fair market value of the shares (reduced, in the case of the additional grants made in December 2013, by the initial value of the deferred amount of such grants). Any shares received on settlement are required to be immediately exchanged for fully-vested equity units ("Acquired LLC Units") in WMG Management Holdings, LLC ("Management LLC"), a limited liability company formed in connection with the Plan's adoption. The maximum number of deferred equity units approved for grant to our NEOs under the Plan is set forth below in the "Outstanding Equity Awards at 2014 Fiscal Year End" table. In fiscal year 2014, the maximum number of deferred equity units available for each of Messrs. Strang, and Wiesenthal was increased, in connection with the increases to their percentage allocations of free cash flow. Each deferred equity unit is equivalent to 1/10,000 of a share of our common stock.

In addition to the scheduled Redemption Dates, deferred accounts will be settled following termination of employment (including death or disability), or upon a change in control of the Company.

If and when a dividend is paid on our common stock, a proportionate amount of such dividend will be paid to the participating employees in respect of their deferred accounts. Dividends may be reduced by the amount of any outstanding unrecovered added investment amounts.

Equity Interests under the Plan

Upon making a deferral election under the Plan, each of our NEOs who elected to participate in the Plan became a member of Management LLC, and was granted a "profits interest" in Management LLC ("Profits Interests") in amounts equal to 10,000 times the maximum number of shares of our common stock available for issuance to the participants in settlement of his deferred account. These Profits Interests granted in fiscal year 2013 represent an economic entitlement to future appreciation in our common stock above the purchase price paid by Access in its acquisition of the Company. In addition, in connection with the increases to the free cash flow percentage allocations of Messrs. Strang and Wiesenthal in fiscal year 2014, each of them was granted an additional number of Profits Interests in Management LLC equal to the additional number of deferred equity units that may be granted to them, representing an economic entitlement to future appreciation in our common stock from the date of grant. Under the Plan, Profits Interests representing, in the aggregate, no more than 3.75% of our common stock on a fully-diluted basis may be granted to Plan participants, including our NEOs. The amount of Profits Interests granted to each of our NEOs who participate in the Plan is set forth below under "Outstanding Equity Awards at 2014 Fiscal Year End" table, and other terms and conditions of the Plan with respect to the Profits Interests are described below in the narrative accompanying the "Grants of Plan-Based Awards in Fiscal year 2014" table and under "Potential Payments upon Termination or Change-In-Control."

Tax Deductibility of Performance-Based Compensation and Other Tax Considerations

Where appropriate, and after taking into account various considerations, we structure our executive employment arrangements and compensation programs to allow us to take a tax deduction for the full amount of the compensation we pay to our executives.

We are a privately held company. As a result, we are not subject to Section 162(m), which generally places limits on the tax deductibility of executive compensation for publicly traded companies unless certain requirements are met.

Benefits

Our NEOs also receive health coverage, life insurance, disability benefits and other similar benefits in the same manner as our U.S. employees generally.

Retirement Benefits

We offer a tax-qualified 401(k) plan to our employees and in November 2010 we adopted a non-qualified deferred compensation plan, which is available to those of our employees whose annual salary is at least $200,000. Both plans are available to the NEOs.

In accordance with the terms of the Company's 401(k) plan, the Company matches, in cash, 50% of amounts contributed to that plan by each plan participant, up to 6% of eligible pay, up to a maximum of $245,000 of eligible pay or $16,500 in pre-tax deferrals ($22,000 in the case of participants age 50 or greater), whichever occurs first. The matching contributions made by the Company are initially subject to vesting, based on continued employment, with 25% scheduled to vest on each of the second through fifth anniversaries of the employee's date of hire.

Perquisites

We generally do not provide perquisites to our NEOs. See the Summary Compensation Table below for a summary of compensation received by our NEOs, including any perquisites received in fiscal year 2014.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis. Based on the review and discussions, the Compensation Committee recommends to the Board of Directors that the Compensation Discussion and Analysis be included in this Form 10-K.

Members of the Compensation Committee

Lincoln Benet, Chair

Len Blavatnik

Thomas H. Lee

Jörg Mohaupt

Donald A. Wagner

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Summary Compensation Table

The following table provides summary information concerning compensation paid or accrued by us to or on behalf of our NEOs, for services rendered to us during the specified fiscal year.

Name and Principal Position	Year	Salary ($)	Bonus ($) (1)	Stock Awards ($) (2)	Non-Equity Incentive Plan Compensation ($) (3)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($) (4)	Total ($)
Stephen Cooper (5)	2014	$2,000,000	—	—	—	—	—	$2,000,000
CEO	2013	$2,000,000	—	$8,805,205	$570,000	—	—	$11,375,205
	2012	$1,800,000	$2,500,000	—	—	—	—	$4,300,000
Brian Roberts (6)	2014	$722,308	—	—	—	—	$7,500	$729,808
Executive Vice President and	2013	$615,385	—	$1,115,326	$72,200	—	$7,500	$1,810,411
Chief Financial Officer	2012	$537,000	$533,500	—	—	—	$7,500	$1,078,000
Cameron Strang (7)	2014	$2,250,000	—	$440,260	__	—	$7,500	$2,697,760
Chairman and CEO,	2013	$2,113,465	—	$5,429,877	$351,500	—	$7,500	$7,902,342
WBR and WCM	2012	$1,507,692	$807,500	—	—	—	$7,500	$2,322,692
Paul M. Robinson (8)	2014	$685,577	$225,500	—	—	—	$7,500	$918,577
Executive Vice President and								
General Counsel	2013	$625,000	$451,000	—	—	—	$7,500	$1,083,500
	2012	$625,000	$533,500	—	—	—	$7,500	$1,166,000
Robert S. Wiesenthal (9)	2014	$1,500,000	—	$880,521	__	—	$7,500	$2,388,021
Chief Operating Officer/Corporate	2013	$1,084,615	$500,000	$587,014	$38,000	—	—	$2,209,629

(1) Represents discretionary cash bonus for fiscal year 2014 performance for Mr. Robinson expected to be paid in January 2015, supplemental 2013 cash bonus to Mr. Wiesenthal and cash bonus amount in respect of fiscal year 2013 performance paid in January 2014 for Mr. Robinson, and cash bonus amounts in respect of fiscal year 2012 performance paid in December 2012 for Messrs. Roberts, Strang and Robinson (for the periods they were employed by the Company). Access awarded Mr. Cooper a one-time discretionary bonus for the period July 20, 2011 through the end of fiscal 2012, which is reflected in the cash bonus amount for fiscal 2012 and was paid in December 2012.

(2) For fiscal year 2013, reflects the aggregate grant date fair value of the maximum number of deferred equity units that, as of fiscal year 2013, could have been granted to such officer and awards of Profits Interests made in fiscal

year 2013 in connection with their becoming participants in the Plan. For fiscal year 2014, for Messrs. Strang and Wiesenthal reflects the aggregate grant date fair value of the increase to the maximum number of deferred equity units that may be granted to such officer and the awards of Profits Interests made in fiscal year 2014 in connection with that increase. These grant date fair values were computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation—Stock Compensation, without taking into account estimated forfeitures. Assumptions used in the calculation of this amount are included in Note 11 to our audited financial statements for the year ended September 30, 2014.

(3) Represents the portion of the bonus amount paid to them in cash in respect of the 2013 fiscal year under the Plan. As participants in the Plan, Messrs. Cooper, Roberts, Strang and Wiesenthal were paid 1.5%, 0.925%, 0.19% and 0.10%, respectively, of the Company's free cash flow earned in 2013, subject to the limitations of the Plan. Each of them deferred 75% of such amount under the Plan. All of the NEOs participating in the Plan deferred 100% of their 2014 bonuses under the Plan into the acquisition of deferred equity units. For those NEOs, no bonus is reported in this table for fiscal year 2014 because the grant date value of the acquired deferred equity units was reported in this table for fiscal year 2013 under the column "stock awards". The amounts of these 2014 bonuses are described above under "—Annual Free Cash Flow Bonus Pool".

(4) For Messrs. Roberts, Strang, Robinson and Wiesenthal, all other compensation in fiscal year 2014 includes $7,500 of 401(k) matching contributions.

(5) Mr. Cooper was appointed as Chief Executive Officer and President on August 18, 2011. Access has a consulting agreement in respect of Mr. Cooper pursuant to which he receives $166,667 a month in connection with his role as CEO of the Company. The Company reimburses Access for these amounts pursuant to the Management Agreement. Except for his participation in the Plan, the Company does not have any other employment arrangement with Mr. Cooper.

(6) Mr. Roberts was appointed CFO effective December 9, 2011. Base salary above for Mr. Roberts represents amounts earned by Mr. Roberts during fiscal 2012 in both his role as CFO since December 2011 and as Senior Vice President and CFO of Warner/Chappell Music prior to that time. Base salary for fiscal year 2013 reflects the increase in Mr. Robert's base compensation to $650,000, effective January 1, 2013, and his base salary for fiscal year 2014 reflects the increase in his salary to $750,000, effective January 1, 2014. Effective October 13, 2014, Mr. Roberts moved to a newly created position on the Company's senior management team as Executive Vice President, Corporate Strategy and Operations and Eric J. Levin was appointed as Executive Vice President and Chief Financial Officer of the Company.

(7) Mr. Strang's base salary for fiscal 2013 reflects the increase in his base compensation to $2,250,000 in December 2012.

(8) Mr. Robinson became an NEO in fiscal 2014. He was not an NEO in fiscal 2013 but was also an NEO in fiscal 2012. Mr. Robinson's base salary for fiscal 2014 reflects the increase in his salary to $700,000, effective January 1, 2014.

(9) Mr. Wiesenthal was appointed Chief Operating Officer/Corporate in January 2013. Base salary above for fiscal 2013 represents amounts earned following the commencement of Mr. Wiesenthal's employment with the Company in January 2013.

Grant of Plan-Based Awards in Fiscal Year 2014

In early fiscal year 2014, the Compensation Committee approved an increase to the maximum number of deferred equity units that may be acquired by each of Messrs. Strang and Wiesenthal, and each of them received a corresponding grant of additional Profits Interests, as follows:

Name	Grant Date	All other Stock Awards; Number of Shares of Stock or Units (#)		Grant Date Fair Value of Stock and Option Awards	
Cameron Strang	March 7, 2014	4,109.589	(1)	$ 440,260	(2)
	March 7, 2014	4,109.589	(3)	$ —	(4)
Robert S. Wiesenthal	March 7, 2014	8,219.178	(1)	$ 880,521	(2)
	March 7, 2014	8,219.178	(3)	$ —	(4)

(1) Represents the additional number of deferred equity units approved for grant under the Plan to Messrs. Strang and Wiesenthal in fiscal year 2014, in connection with an increase to their allocated percentage of free cash flow. Each deferred equity unit is equivalent to 1/10,000 of a share of our common stock.

(2) Reflects the aggregate grant date fair value of the additional number of deferred equity units granted to Messrs. Strang and Wiesenthal in fiscal year 2014, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation—Stock Compensation, without taking into account estimated forfeitures. Assumptions used in the calculation of this amount are included in Note 11 to our audited financial statements for the year ended September 30, 2014.

(3) Represents the additional number of Profits Interests granted to Messrs. Strang and Wiesenthal under the Plan in 2014, in connection with increases to their allocated percentages of free cash flow and corresponding increases to the maximum number of deferred equity units that may be granted to them under the Plan.

(4) Reflects the aggregate grant date fair value of awards of Profits Interests made to Messrs. Strang and Wiesenthal in fiscal year 2014, computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation—Stock Compensation, without taking into account estimated forfeitures. Assumptions used in the calculation of this amount are included in Note 11 to our audited financial statements for the year ended September 30, 2014.

Under the Plan, the deferred amounts reflected in the table above will be credited to a participant's account as and when a deferred bonus is earned based on the fair market value of a share of our common stock as of January 1, 2013. Uncredited deferred equity units will be forfeited upon a participant's termination of employment. Under the Plan, our NEOs' Profits Interests will vest over time as equivalent amounts of their annual free cash flow bonuses are deferred under the Plan. Unvested Profits Interests will be forfeited on any termination of employment. As of September 30, 2014, 82,191.78, 10,410.96, 54,795.52 and 13,698.63 of the deferred equity units had been granted to Messrs. Cooper, Roberts, Strang and Wiesenthal, respectively, of which 15,961.92, 2,021.84, 9,843.18 and 1,064.13, respectively, deferred equity units had vested. Also, 23,522.82, 2,979.56, 14,505.74 and 1,568.19, respectively, of the Profits Interests held by them had vested, reflecting the free cash flow bonuses earned by them in respect of fiscal year 2013 and credited to their accounts under the Plan (including the special grant of deferred equity units made to them in December 2013 to offset the impact of $54 million of investments that were funded through fiscal year 2013 free cash flow).

The deferred amounts reflected in the “Outstanding Equity Awards at 2014 Fiscal Year-End” table below will be settled in three equal installments on the December 2018, 2019 and 2020 Redemption Dates, so long as participants have deferred their maximum deferred amounts prior to January 1, 2017. All remaining amounts will be settled in December 2020. Deferred accounts will be settled at the participants’ election, in shares of our common stock or with a cash payment equal to the then fair market value of the shares. Any shares received on settlement are required to be immediately exchanged for fully vested Acquired LLC Units in WMG Management LLC. On each Redemption Date, a Plan participant may elect to redeem up to one-third of his or her vested Profits Interests (including any Profits Interests eligible for redemption on a prior Redemption Date that were not then redeemed) for a cash payment equal to their liquidation value. Also, a Plan participant may also elect to redeem his or her Acquired LLC Units for a cash payment equal to the fair market value of their underlying shares of the Company’s common stock on each Redemption Date. In addition to a Plan participant’s right to redemption of his or her vested Profits Interests and Acquired LLC Units on the Redemption Dates and annually thereafter, Management LLC may redeem vested Profits Interests and Acquired LLC Units following a participant’s termination of employment with the Company and its subsidiaries. All remaining Profits Interests will be redeemed in December 2020. Redemption payments in respect of Profit Interests may be reduced by the amount of any outstanding unrecovered added investment amounts.

In addition, if and when a dividend is paid on our common stock, a proportionate amount of such dividend will be paid to Management LLC for distribution to Plan participants in respect of their Profits Interests and Acquired LLC Units. Dividends may be reduced by the amount of any outstanding unrecovered added investment amounts.

As a condition to the grant of Profits Interests to our NEOs who elected to participate in the Plan, each of them agreed to restrictive covenants in the LLC Agreement, including noncompetition with the businesses of the Company and its subsidiaries during the participant's term of employment (but not for Mr. Strang who is located in the State of California), non-solicitation of certain artists, labels and employees during the participant's term of employment and for one year afterwards, as well as obligations of nondisparagement and confidentiality.

Summary of NEO Employment Arrangements and Separation Arrangements

This section describes employment arrangements in effect for our NEOs during fiscal year 2014. Potential payments under the severance agreements and arrangements described below are provided in the section entitled "Potential Payments upon Termination or Change-In-Control." In addition, for a summary of the meanings of "cause" and "good reason" as discussed below, see "Termination for "Cause"" and "Resignation for "Good Reason" or without "Good Reason"" below.

Employment Arrangements with Stephen Cooper

As noted above, Access has a consulting agreement in respect of Mr. Cooper pursuant to which he receives $166,667 a month plus reimbursement of related expenses in connection with his role as CEO of the Company. The Company reimburses Access for these amounts pursuant to the Management Agreement. Except for his participation in the Plan, the Company does not have any other employment arrangement with Mr. Cooper.

Employment Arrangements with Brian Roberts, Cameron Strang and Robert Wiesenthal

On December 21, 2012, in connection with their becoming participants in the Plan, Messrs. Roberts, Strang and Wiesenthal were required to enter into new simplified employment letters that replaced their employment arrangements with the Company and its subsidiaries. Those letters provide for at-will employment, base salary, a right to participate in the Plan, a right to fringe benefits generally available to Company employees of a similar level and a right to a severance payment to the participant on his or her termination of employment by the Company without "cause" or by the participant for "good reason" (as such terms are defined in the employment letter). The severance payment provided under the employee letter will equal 75% of a participant's annual salary if a qualifying termination occurs prior to the first anniversary of the date the employee letter was entered into (i.e., December 21, 2013), and 50% of the participant's annual salary if the qualifying termination occurs after the first anniversary. Any severance payment will be conditioned on the NEO's execution of a release (in the Company's standard form at the time) of the Company and its affiliates. In addition, their employment letters require Messrs. Roberts, Strang and Wiesenthal to comply with the restrictive covenants in the LLC Agreement.

Employment Agreement with Paul M. Robinson

Mr. Robinson entered into a new employment agreement dated as of February 11, 2011. The term of the new employment agreement began on October 1, 2011. The employment agreement, among other things, includes the following:

(1) the term of Mr. Robinson's new employment agreement ends on September 30, 2015; and
(2) Mr. Robinson's base salary under his agreement was $625,000 from October 1, 2011 to September 30, 2013 and $650,000 from October 1, 2013 to September 30, 2015 and his target bonus beginning October 1, 2011 is

$550,000. Pursuant to a letter agreement dated December 13, 2013, Mr. Robinson’s base salary was increased to $700,000, effective January 1, 2014.

In the event we terminate his employment for any reason other than for “cause” or if Mr. Robinson terminates his employment for “good reason,” each as defined in the agreement, Mr. Robinson will be entitled to severance benefits equal to $1,050,000 plus a discretionary pro-rated target bonus (which shall not be less than $440,000 pro-rated for the number of days during which services were rendered in such fiscal year) and continued participation in the Company’s group health and life insurance plans for up to one year after termination.

Mr. Robinson’s employment agreement also contains standard covenants relating to confidentiality and a one-year post-employment non-solicitation covenant.

Outstanding Equity Awards at 2014 Fiscal Year-End

Name	Number of Shares or Units of Stock That Have Not Vested (#) (1)		Market Value of Shares or Units of Stock That Have Not Vested ($) (4)
Stephen Cooper	66,229.86	(2)	$ 8,803,273
	58,668.96	(3)	$ 1,513,072
Brian Roberts	8,389.12	(2)	$ 1,115,082
	7,431.40	(3)	$ 191,656
Cameron Strang	44,952.34	(2)	$ 5,975,065
	40,289.78	(3)	$ 1,039,073
Robert S. Wiesenthal	12,634.50	(2)	$ 1,679,378
	12,130.44	(2)	$ 312,844

(1) An NEO's deferred equity units and Profits Interests generally vest over time as equivalent amounts of his annual free cash flow bonuses are deferred under the Plan, except that the special grants of deferred equity units made in December 2013 will vest, subject to such officer's continued employment, on the later of December 31, 2015 and the date, if any, when such officer acquires his maximum allocation of deferred equity units under the Plan, and also a number of Profits Interests corresponding to this special grant of defer. Uncredited deferred equity units and unvested Profits Interests will be forfeited on any termination of employment.
(2) Deferred equity units approved for grant to the officer as of September 30, 2014. Each deferred equity unit is equivalent to 1/10,000 of a share of our common stock.
(3) Unvested Profit Interests.
(4) Assumptions used in the calculation of this amount are included in Note 11 to our audited financial statements for the year ended September 30, 2014.

Equity Awards Vested in 2014 Fiscal Year

Name	Number of Shares or Units of Stock Acquired on Vesting (#)		Value Realized on Vesting ($) (3)
Stephen Cooper	15,961.92	(1)	$ 2,148,794
	23,522.82	(2)	$ 646,642
Brian Roberts	2,021.84	(1)	$ 272,180
	2,979.56	(2)	$ 81,908
Cameron Strang	9,843.18	(1)	$ 1,325,089
	14,505.74	(2)	$ 398,763
Robert S. Wiesenthal	1,064.13	(1)	$ 143,253
	1,568.19	(2)	$ 43,110

(1) Deferred equity units of the NEO that vested in fiscal year 2014 upon the deferral of free cash flow bonuses by the NEOs.

(2) Profits Interests that vested in fiscal year 2014 include a number of Profits Interests equal to the number of deferred equity units acquired by the NEOs in fiscal year 2014 and an additional number of Profits Interests that vested in connection with the grant of deferred equity units to offset the impact of the $54 million of investments that were funded through fiscal year 2013 free cash flow.

(3) Reflects the difference between the purchase price of a deferred equity unit and the fair market value of a deferred equity unit on the date the NEOs acquired the vested deferred equity units in March 2014. The grant date fair value of these vested deferred equity units and vested Profits Interests were reported under the column "stock awards" in the Summary Compensation Table for fiscal year 2013. No payment was made in fiscal year 2014 to any of the NEOs in respect of their vested deferred equity units or vested Profits Interests. Pursuant to the Plan and the NEOs' elections, the deferred equity units and Profits interests will not be settled or redeemed until the Redemption Dates or, if earlier, termination of the NEO's employment. See the descriptions in the narratives accompanying the "Grants of Plan-Based Awards in Fiscal Year 2014" table above and below under "Potential Payments upon Termination or Change-In-Control."

Nonqualified Deferred Compensation

The following table provides information concerning the deferred accounts of our NEOs under the Plan:

Name	Executive Contributions in Last FY ($) (1)	Registrant Contributions in Last FY ($) (2)	Aggregate Earnings in Last FY ($) (3)	Aggregate Withdrawals / Distributions ($)	Aggregate Balance at Last FYE ($)
Stephen Cooper	$1,710,000	$438,794	$(27,135)	–	$2,121,659
Brian Roberts	$216,600	$55,580	$(3,437)	–	$268,743
Cameron Strang	$1,054,500	$270,589	$(16,733)	–	$1,308,356
Robert S. Wiesenthal	$114,000	$29,253	$(1,809)	–	$141,444

(1) Amounts of free cash flow bonuses earned in respect of the 2013 fiscal year that were deferred by the NEOs under the Plan through the acquisition of vested deferred equity units. These amounts were reported in the "stock awards" column in the Summary Compensation Table for fiscal year 2013.

(2) Reflects the difference between the purchase price of a deferred equity unit and the fair market value of a deferred equity unit on the date the NEOs acquired the vested deferred equity units in fiscal year 2014, as reported above in the "Equity Awards Vested in 2014 Fiscal Year" table.

(3) Reflects the increase (decrease) in value of vested deferred equity units as of September 30, 2014 since the date the NEOs acquired the vested deferred equity units in fiscal year 2014. $1,710,000, $216,600, $1,054,500 and $114,000 of these amounts for Messrs. Cooper, Roberts, Strang and Wiesenthal, respectively, were reported in the Summary Compensation Table for fiscal year 2013.

Potential Payments upon Termination or Change-In-Control

We have entered into employment arrangements that, by their terms, will require us to provide compensation and other benefits to our NEOs if their employment terminates or they resign under specified circumstances. In addition, the Plan provides for certain payments upon a participant's termination of employment or a change-in-control of the Company.

The following discussion summarizes the potential payments upon a termination of employment in various circumstances. The amounts discussed apply the assumptions that employment terminated on September 30, 2014 and the NEO does not become employed by a new employer or return to work for the Company. The discussion that follows addresses Messrs. Cooper, Roberts, Strang, Robinson and Wiesenthal. See "Summary of NEO Employment Arrangements" above for a description of their respective agreements.

Estimated Benefits upon Termination for "Cause" or Resignation Without "Good Reason"

In the event an NEO is terminated for "cause," or resigns without "good reason" as such terms are defined below, the NEO is only eligible to receive compensation and benefits accrued through the date of termination. Therefore, no amounts other than accrued amounts would be payable to Messrs. Roberts, Strang, Robinson and Wiesenthal in this instance pursuant to their employment arrangements. As noted above, Mr. Cooper does not have an employment arrangement directly with the Company and, therefore, he is also not entitled to any benefits from the Company, except under the Plan, if he is terminated for "cause" or he resigns without "good reason."

Estimated Benefits upon Termination without "Cause" or Resignation for "Good Reason"

Upon termination without "cause" or resignation for "good reason," Messrs. Roberts, Strang, Robinson and Wiesenthal are entitled to contractual severance benefits payable on termination plus, in the case of Mr. Robinson, a pro-rated annual bonus for the year of termination and continued participation in the group health and life insurance plans of the Company in which he currently participates for up to one year after termination. Although annual free cash flow bonuses under the Plan are generally contingent upon the participant being employed with the Company on the date of payment, if the employment of Messrs. Cooper, Roberts, Strang or Wiesenthal is terminated by the Company without "cause", by him for "good reason" or due to his death or "disability," he will be entitled under the Plan to a pro rata free cash flow bonus in respect of the year in which such event occurs (as such terms are defined in the Plan). None of our NEOs are entitled to any additional severance upon a termination in connection with a change in control.

Name	Salary (other than accrued amounts) (1)	Bonus (2)	Value of Deferred Compensation (3)	Acceleration of Profits Interests (4)	Benefits	Total
Stephen Cooper	—	$810,000	$ 2,121,659	—	—	$2,931,659
Brian Roberts	$ 375,000	$102,600	$ 268,743	—	—	$746,343
Cameron Strang	$ 1,125,000	$539,987	$ 1,308,356	—	—	$2,973,343
Paul M. Robinson	$ 1,050,000	$225,500	—	—	50,000	$1,325,500
Robert S. Wiesenthal	$ 750,000	$134,987	$ 141,444	—	—	$1,026,431

(1) Amounts under salary for Messrs. Roberts, Strang and Wiesenthal represent 50% of their respective annual salary which would have been paid to them as severance on a termination without "cause" or termination for "good reason" on September 30, 2014, which would be payable in the regular payroll cycle in a period not exceeding 52 weeks. For Mr. Robinson, the amount represents the lump sum severance payable to him on such a qualifying termination.
(2) For Messrs. Cooper, Roberts, Strang and Wiesenthal, represents a pro rata amount of the annual free cash flow bonus payable under the Plan (or, since the termination date is assumed to be September 30, 2014, their full 2014 annual bonuses).
(3) Reflects the value of vested deferred equity units that will be settled on a termination of employment without "cause" or by the NEO for "good reason".
(4) Profits Interests will not accelerate on a termination of employment that is not in connection with a change in control of the Company.

Estimated Benefits in connection with a Change in Control

As participants in the Plan, each of Messrs. Cooper, Roberts, Strang and Wiesenthal will be entitled to additional payments upon a change in control in respect of his amounts deferred under the Plan and the Profits Interests granted to him.

Name	Value of Deferred Compensation (1)	Value of Profits Interests (2)	Total
Stephen Cooper	$ 3,321,553	$ 801,553	$4,123,106
Brian Roberts	$ 420,730	$ 101,530	$522,260
Cameron Strang	$ 2,098,522	$ 504,036	$2,602,558

Paul M. Robinson	$ —	$ —	$—
Robert S. Wiesenthal	$ 388,916	$ 72,931	$461,847

(1) For each of Messrs. Cooper, Roberts, Strang and Wiesenthal, represents the value of (x) the NEO's deferred equity units that were vested on September 30, 2014, (y) the additional deferred equity units granted to him in December 2013 to offset the impact of the $54 million of investments that were funded through fiscal year 2013 free cash flow (but reduced for the amount of any unrecovered investment amounts that were allocated to the NEO with such additional grant) and (z) the deferred equity units that would have been credited to his deferred compensation account with a pro rata portion of the free cash flow bonus in respect of the 2014 fiscal year payable in deferred equity units (i.e., 100% of the full 2014 bonus since the change in control would be deemed to occur on September 30, 2014), in each case, based on the value of our common stock as of September 30, 2014.

(2) For each of Messrs. Cooper, Roberts, Strang and Wiesenthal, represents the value of (x) the NEO's Profits Interests that were vested on September 30, 2014 and (y) the NEO's Profits Interests that would have vested if 100% of his 2014 annual bonus would have been deferred under the Plan. The value of a Profits Interest that was granted on January 7, 2013 reflects the appreciation in the fair market value of one-ten-thousandth (1/10,000) of a share of our common stock as of September 30, 2014 since January 7, 2013. The value of a Profits Interest that was granted in fiscal year 2014 reflects the appreciation in the fair market value of one-ten-thousandth (1/10,000) of a share of our common stock as of September 30, 2014 since the date of grant. In each case, the value of a Profits Interest assumes that Management, LLC was liquidated and its proceeds distributed to its members, including our NEOs.

Upon a change of control of the Company and upon certain sales of shares of our common stock underlying Profits Interests and Acquired LLC Units, distributions will be made in respect of Profits Interests (to the extent of their liquidation value) and Acquired LLC Units. The LLC Agreement associated with the Plan provides Access with the right to cause Plan participants (including the NEOs) to sell their Profits Interests, Acquired LLC Units or the underlying shares of our common stock on a sale by Access of more than 50% of the outstanding shares of our common stock to third parties (i.e., a "drag-along right"), other than in a public offering of our common stock. Also, the LLC Agreement provides Plan participants (including the NEOs) with the right to sell their vested Profits Interests and Acquired LLC Units in the event that Access proposes to sell to third parties or us shares of our common stock other than certain sales after a public offering of our common stock (i.e., a "tag-along right").

Estimated Benefits upon Death or Disability

Death. For Messrs. Roberts, Strang, Robinson and Wiesenthal, other than accrued benefits and, in the case of Messrs. Roberts, Strang and Wiesenthal under the Plan, no other benefits are provided in connection with such NEO's death. Each of Messrs. Roberts, Strang, Robinson and Wiesenthal would also receive insurance payouts equal to 1.5x their base salary up to a benefit maximum of $1.5 million.

Disability. For Messrs. Roberts, Strang, Robinson and Wiesenthal, other than accrued benefits and short-term disability amounts and, in the case of Messrs. Roberts, Strang and Wiesenthal under the Plan, no benefits are provided in connection with such NEO's disability. In the event Mr. Robinson becomes disabled during the term of employment, he may participate in our health plans until age 65.

As participants in the Plan, each of Messrs. Cooper, Roberts, Strang and Wiesenthal will be entitled to the following payments if terminated as a result of death or disability:

Name	Bonus (1)	Value of Deferred Compensation (2)	Acceleration of Profits Interests (3)	Total
Stephen Cooper	$810,000	$ 2,316,631	—	$3,126,631
Brian Roberts	$102,600	$ 293,439	—	$396,039
Cameron Strang	$539,987	$ 1,428,589	—	$1,968,576
Robert S. Wiesenthal	$134,987	$ 154,442	—	$289,429

(1) Represents a pro rata amount of the annual free cash flow bonus payable under the Plan (or, since the termination date is assumed to be September 30, 2014, the full 2014 annual bonus) for each of Messrs. Cooper, Roberts, Strang and Wiesenthal.

(2) Represents the value of the NEOs' deferred equity units that were vested on September 30, 2014 and (y) the additional deferred equity units granted to him in December 2013 to offset the impact of the $54 million of investments that were funded through fiscal year 2013 free cash flow (but reduced for the amount of any unrecovered investment amounts that were allocated to the NEO with such additional grant), in each case, based on the value of our common stock as of September 30, 2014.

(3) Profits Interests will not accelerate on a termination of employment that is not in connection with a change in control of the Company.

Relevant Provisions of Employment Arrangements

Upon termination of employment for any reason, all of our employees, including our NEOs, are entitled to unpaid salary and vacation time accrued through the termination date.

Termination for “Cause”

Under the terms of their employment letters, we generally would have “cause” to terminate the employment of Messrs. Roberts, Strang and Wiesenthal in any of the following circumstances: (1) ceasing to perform his material duties to the Company or its affiliates (other than as a result of vacation, approved leave or incapacity due to physical or mental illness or injury), which failure amounts to an extended neglect of his duties, (2) engaging in conduct that is materially injurious to the business of the Company or its affiliates, (3) conviction of a felony or entered a plea of guilty or no contest to a felony charge or a misdemeanor involving as a material element fraud, dishonest or sale or possession of illicit substances, (4) failing to follow lawful instructions of his direct superiors or the Company’s board of directors and (5) breach of any restrictive covenant addressed in his employee letter. We are required to notify Messrs. Roberts, Strang and Wiesenthal after any event that constitutes “cause” before terminating their employment for “cause”, and in general they have no less than 15 days after receiving notice of an event described in clauses (1), (4) or (5) to cure the event.

A similar standard of “cause” applies to Mr. Cooper under the Plan with respect to his interests in the Plan.

Under the terms of his employment agreement, we generally would have “cause” to terminate the employment of Mr. Robinson in any of the following circumstances: (1) substantial and continual refusal to perform his duties with the Company, (2) engaging in willful malfeasance that has a material adverse effect on the Company and (3) conviction of a felony or entered a plea of nolo contendere to a felony charge. We are required to notify Mr. Robinson after any event that constitutes “cause” before terminating his employment, and in general he has no less than 20 days after receiving notice to cure the event.

Resignation for “Good Reason” or without “Good Reason”

Our employment letters with Messrs. Roberts, Strang and Wiesenthal provide that each of them generally would have “good reason” to terminate employment in any of the following circumstances: (1) if his salary or annual bonus percentage under the Plan is materially reduced, (2) if we fail to pay him any salary which has become payable and due to him or (3) our failure to pay him any entitlement that that has become payable and due under the Plan. Each of Messrs. Roberts, Strang and Wiesenthal is required to notify us within 30 days after becoming aware of the occurrence of any event that constitutes “good reason,” and in general we have 30 days to cure the event, failing a cure, he must terminate his employment within 30 days after the cure period expires.

A similar standard of “good reason” applies to Mr. Cooper under the Plan with respect to his interests in the Plan.

Our employment agreement with Mr. Robinson provides that he generally would have “good reason” to terminate employment in any of the following circumstances: (1) if we assign duties inconsistent with his current positions, duties or responsibilities or if we change the parties to whom he reports, (2) if we remove him from, or fail to re-elect him to, his position, (3) if we reduce his salary, target bonus or other compensation levels, (4) if we require him to be based anywhere other than the New York metropolitan area, (5) if we breach certain of our obligations under the employment agreement, (6) if we fail to cause any successor of the Company to expressly assume his employment agreements or (7) any change in reporting line such that he no longer reports to the CEO or the senior-most executive of the Company. Mr. Robinson is required to notify us within 60 days after becoming aware of the occurrence of any event that constitutes “good reason,” and in general we have 30 days to cure the event.

Restrictive Covenants

Our agreements with our NEOs contain several important restrictive covenants with which an executive must comply following termination of employment. For example, the entitlement of Messrs. Roberts, Strang and Wiesenthal to payment of any unpaid portion of the severance amount indicated in the table as owing following a termination without “cause” or resignation for “good reason” and the entitlement of Messrs. Cooper, Roberts, Strang and Wiesenthal to payments under the Plan are each conditioned on the NEO’s compliance with covenants not to solicit certain of our artists and employees. This non-solicitation covenant continues in effect during a period that, for each of our NEOs, will end one year following his termination of employment.

Mr. Robinson’s employment agreement and the Plan for Messrs. Cooper, Roberts, Strang, and Wiesenthal also contain covenants regarding non-disclosure of confidential information.

DIRECTOR COMPENSATION

The following table provides summary information concerning compensation paid or accrued by us to or on behalf of our non-employee directors, as of September 30, 2014, for services rendered to us during the last fiscal year.

Mathias Döpfner is entitled to an annual retainer of €250,000, payable pro rata quarterly in arrears, for his service as a director on the Company's board. No other non-employee directors received any compensation for service on the Board of Directors or Board committees during fiscal 2014.

Directors are entitled to reimbursement of their fees incurred in connection with travel to meetings. In addition, the Company reimburses directors for fees paid to attend director education events.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
Lincoln Benet	—	—	—	—	—	—	—
Alex Blavatnik	—	—	—	—	—	—	—
Len Blavatnik	—	—	—	—	—	—	—
Mathias Döpfner (1)	$ 79,713	—	—	—	—	—	$ 79,713
Noreena Hertz	—	—	—	—	—	—	—
Thomas H. Lee	—	—	—	—	—	—	—
Jörg Mohaupt	—	—	—	—	—	—	—
Oliver Slipper	—	—	—	—	—	—	—
Donald A. Wagner	—	—	—	—	—	—	—

(1) Mr. Döpfner had one scheduled payment during fiscal 2014, on August 1, 2014, of €62,500. Above amount represents the dollar equivalent at September 30, 2014 and represents the prorated amount applicable for fiscal 2014 following his commencement as a director on May 1, 2014.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Mr. Wagner was a Vice President of the Company from July 20, 2011 to October 3, 2011. None of the Compensation Committee's members is or has been a Company officer or employee during the last fiscal year. During fiscal year 2014, none of the Company's executive officers served on the board of directors, the Compensation Committee or any similar committee of another entity of which an executive officer served on our Board of Directors or Compensation Committee.

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ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Affiliates of Access own 100% of our common stock.

The following table provides information as of December 11, 2014 with respect to beneficial ownership of our capital stock by:

- each shareholder of the Company who beneficially owns more than 5% of the outstanding capital stock of the Company;
- each director of the Company;
- each of the executive officers of the Company named in the Summary Compensation Table appearing under "Executive Compensation"; and
- all executive officers of the Company and directors of the Company as a group.

The amounts and percentages of shares beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under SEC rules, a person is deemed to be a "beneficial owner" of a security if that person has or shares voting power or investment power, which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Securities that can be so acquired are deemed to be outstanding for purposes of computing such person's ownership percentage, but not for purposes of computing any other person's percentage. Under these rules, more than one person may be deemed to be a beneficial owner of the same securities and a person may be deemed to be a beneficial owner of securities as to which such person has no economic interest.

Except as otherwise indicated in these footnotes, each of the beneficial owners listed has, to our knowledge, sole voting and investment power with respect to the indicated shares of common stock.

Name and Address of Beneficial Owner (1)	Title of Class (2)	Amount and Nature of Beneficial Ownership	Percent of Class Outstanding	
AI Entertainment Holdings LLC (formerly Airplanes Music LLC)	Common Stock	995.8	94.4	%
Altep 2012 L.P.	Common Stock	4.2	0.4	%
WMG Management Holdings, LLC	Common Stock	54.7945	5.2	%
Stephen Cooper (3).	N/A	N/A	N/A	
Brian Roberts (3)	N/A	N/A	N/A	
Paul M. Robinson	N/A	N/A	N/A	
Cameron Strang (3)	N/A	N/A	N/A	
Robert S. Wiesenthal (3)	N/A	N/A	N/A	
Len Blavatnik (2)	Common Stock	1,054.7945	100	%
Lincoln Benet (3)	N/A	N/A	N/A	
Alex Blavatnik	N/A	N/A	N/A	
Mathias Döpfner	N/A	N/A	N/A	
Noreena Hertz	N/A	N/A	N/A	
Thomas H. Lee	N/A	N/A	N/A	
Jörg Mohaupt	N/A	N/A	N/A	
Oliver Slipper	N/A	N/A	N/A	

Donald A. Wagner (3)	N/A	N/A	N/A	
All executive officers and directors of Warner Music Group Corp. as a group (15 persons)	Common Stock	1,054.7945	100	%

(1) The mailing address of each of these persons is c/o Warner Music Group Corp., 1633 Broadway, New York, NY 10019, (212) 275-2000.

(2) As of December 11, 2014, the Company, AI Entertainment Holdings LLC (formerly Airplanes Music LLC), Altep 2012 L.P. and WMG Management Holdings, LLC are indirectly controlled by Len Blavatnik.

(3) Does not reflect shares of the Company's common stock that may be attributable to the beneficial owners of limited partnership interests in Altep 2012 L.P. or Profits Interests in WMG Management Holdings, LLC. Messrs. Benet and Wagner beneficially own limited partnership interests in Altep 2012 L.P. and disclaim any beneficial ownership of shares of the Company's common stock. Messrs. Cooper, Roberts, Strang and Wiesenthal own Profits Interests in WMG Management Holdings, LLC and disclaim any beneficial ownership of shares of the Company's common stock.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE
Oversight of Related Person Transactions

Policies and Procedures Dealing with the Review, Approval and Ratification of Related Person Transactions

The Company maintains written procedures for the review, approval and ratification of transactions with related persons. The procedures cover related party transactions between the Company and any of our executive officers and directors. More specifically, the procedures cover: (1) any transaction or arrangement in which the Company is a party and in which a related party has a direct or indirect personal or financial interest and (2) any transaction or arrangement using the services of a related party to provide legal, accounting, financial, consulting or other similar services to the Company.

The Company's policy generally groups transactions with related persons into two categories: (1) transactions requiring the approval of the Audit Committee and (2) certain ordinary course transactions below established financial thresholds that are deemed pre-approved by the Audit Committee. The Audit Committee is deemed to have pre-approved any transaction or series of related transactions between us and an entity for which a related person is an executive or employee that is entered into in the ordinary course of business and where the aggregate amount of all such transactions on an annual basis is less than 2% of the annual consolidated gross revenues of the other entity. Regardless of whether a transaction is deemed pre-approved, all transactions in any amount are required to be reported to the Audit Committee.

Subsequent to the adoption of the written procedures above in 2005, the Company has followed these procedures regarding all reportable related person transactions. Following is a discussion of related person transactions.

Relationships with Access

Management Agreement

Upon completion of the Merger, the Company and Holdings entered into a management agreement with Access (the "Management Agreement"), dated July 20, 2011 (the "Merger Closing Date"), pursuant to which Access will provide 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 an annual fee (the "Annual Fee") equal to the greater of (i) the Base Amount (as defined below) in effect from time to time or (ii) 1.5% of the EBITDA (as defined in the WMG Holdings Corp. 13.75% Senior Notes due 2019) 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 "Base Amount" at any time shall be equal to the sum of (x) $8,667,000 and (y) 1.5% of the aggregate amount of Acquired EBITDA as at such time. 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. The Company incurred an expense of $8 million during fiscal year 2014 in connection with the Management Agreement, which includes an annual fee and certain expenses in connection with the Management Agreement, plus additional expenses of approximately $2 million related to certain consultants with full time roles at the Company.

Lease Arrangements with Access

On July 29, 2014, AI Wrights Holdings Limited, an affiliate of Access, entered into a lease and related agreements with Warner/Chappell Music Limited and WMG Acquisition (UK) Limited, subsidiaries of the Company, for the lease of 27 Wrights Lane, Kensington, London. The Company had been the tenant of the building, which Access acquired. Subsequent to the change in ownership, the Company entered into the new lease arrangements. Pursuant to the agreements, on January 1, 2015, the rent in the lease shall be increased to £3,460,250 per year, the term was extended five years and the Company received certain rights to extend the term for an additional five years following a market rate rent review.

On September 27, 2011, Access Industries (UK) Limited, an affiliate of Access, entered into a License to Occupy on a Short Term Basis agreement with Warner Music UK Limited, one of the Company's subsidiaries, for the license of office space in the Company's building at 28 Kensington Church Street, Kensington, London. The license fee of £15,839 per month (exclusive of VAT) was based on the per foot lease costs to the Company, which represented market terms. The license agreement was terminated on October 13, 2014.

On May 6, 2013, a subsidiary of the Company, Warner Music Inc., entered into a license agreement with Access Industries, Inc., an affiliate of Access, for the use of office space leased by Access at the building at 450 West 14th Street New York, New York. The license fee of $27,033.50 per month was based on the per foot lease costs to the Company of its prior headquarters space, which represented market terms. The license agreement was terminated on July 31, 2014.

Consulting Agreement in respect of Stephen Cooper

Access Industries, Inc. has a consulting agreement in respect of Stephen Cooper pursuant to which he receives $166,667 per month plus reimbursement of related expenses in connection with his role as CEO of the Company. The Company reimburses Access for these amounts pursuant to the Management Agreement.

Deezer

Access owns a minority equity interest in Odyssey Music Group ("Odyssey"), a French company that controls and operates a digital music streaming service through Odyssey's subsidiary, Blogmusik SAS ("Blogmusik"), under the name Deezer ("Deezer"), and is represented on Odyssey's Board of Directors. Subsidiaries of the Company, Warner Music Inc. and WEA International Inc. have been a party to license arrangements with Deezer since 2008 (Warner Music Inc. was added as a party to the license in 2014 in respect of the U.S.), which provide for the use of the Company's sound recording content on Deezer's ad-supported and subscription streaming services worldwide (excluding Japan) in exchange for fees paid by Deezer. Warner Music Inc. and WEA International Inc. have also authorized Deezer to include Warner content in Deezer's streaming services where such services are offered as a bundle with third party services or products (e.g., telco services or hardware products), for which Deezer is also required to make payments to Warner Music Inc. and WEA International Inc. In fiscal year 2014, Deezer paid to the Company an aggregate amount of approximately $21 million in connection with the foregoing arrangements. In addition, in connection with these arrangements, the Company was issued, and currently holds, warrants to purchase ordinary shares representing a small minority interest in Blogmusik.

Equity Investment

In fiscal 2014, the Company made an investment in a company in which Access was a minority owner, which was subsequently sold during fiscal 2014. As a result of the sale transaction, the Company recognized a gain of $2 million.

Relationships with Other Directors, Executive Officers and Affiliates

Southside Earn-Out

In December 2010, the Company acquired Southside Independent Music Publishing, LLC and contractually agreed to provide contingent earn-out payments to Cameron Strang, the former owner of Southside and currently our Chairman and CEO, Warner/Chappell Music, provided specified performance goals are achieved. The goals relate to the achievement of specified NPS ("net publishers share," a measure of earnings) requirements by the acquired assets during the five-year period following closing of the acquisition. No earn-out payment was triggered in fiscal year 2014. The Company reversed a $6 million liability previously recorded as of September 30, 2014 based on the assessment that it was not probable any earn-out payments would be earned. The Company was also required to pay Mr. Strang certain monies that may be received and applied by the Company in recoupment of advance payments made by Southside prior to the acquisition in an amount not to exceed approximately $800,000, of which all has been paid.

Director Independence

Though not formally considered by the Board of Directors because, following the consummation of the Merger, our common stock is no longer listed on a national securities exchange, we believe that Messrs. Döpfner and Lee and Ms. Hertz would be considered “independent” under the listing standards of the New York Stock Exchange. We do not believe that any of our other directors would be considered “independent” under the listing standards of the New York Stock Exchange.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Audit Committee of the Board of Directors selected the firm of Ernst & Young LLP, to serve as independent registered public accountants for the fiscal year ending September 30, 2014. Ernst & Young LLP has audited the Company's financial statements since the Company was acquired from Time Warner Inc. in March 2004. In accordance with standing policy, Ernst & Young LLP periodically changes the personnel who work on the audit of the Company.

Fees Paid to Ernst & Young LLP

The following table sets forth the aggregate fees paid to Ernst & Young LLP for services rendered in connection with the consolidated financial statements, and reports for the fiscal years ended September 30, 2014 and 2013 on behalf of the Company and its subsidiaries, as well as all out-of-pocket costs incurred in connection with these services (in thousands):

	Year Ended September 30, 2014	Year Ended September 30, 2013
Audit Fees	$ 4,625	$ 5,427
Audit-Related Fees	184	138
Tax Fees	20	40
All Other Fees	224	2,366
Total Fees	$ 5,053	$ 7,971

These fees exclude out-of-pocket costs of approximately $0.25 million and $0.2 million for each of the periods ended September 30, 2014 and 2013, respectively.

Audit Fees: Consists of fees billed for professional services rendered for the audit of the Company's consolidated financial statements, the review of the interim condensed consolidated financial statements included in quarterly reports and services that are normally provided by Ernst & Young LLP in connection with statutory and regulatory filings or engagements and attest services, except those not required by statute or regulation. Fiscal 2013 also includes approximately $0.7 million of PLG-related costs in connection with incremental audit procedures.

Audit-Related Fees: Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under "Audit Fees." These services include employee benefit plan audits, auditing work on proposed transactions, attest services that are not required by statute or regulation and consultations concerning financial accounting and reporting standards.

Tax Fees: Consists of tax compliance/preparation and other tax services. Tax compliance/preparation consists of fees billed for professional services related to federal, state and international tax compliance, assistance with tax audits and appeals, expatriate tax services and assistance related to the impact of mergers, acquisitions and divestitures on tax return preparation. Other tax services consist of fees billed for other miscellaneous tax consulting and planning.

All Other Fees: For the fiscal years ended September 30, 2014 and 2013, fees consist of integration work performed in connection with the acquisition of PLG.

Pre-approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accountants

The Audit Committee pre-approves all audit and permissible non-audit services provided by Ernst & Young LLP. These services may include audit services, audit-related services, tax services and other services. The Audit Committee has adopted a policy for the pre-approval of services provided by Ernst & Young LLP. Under this policy, pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and includes an anticipated budget. In addition, the Audit Committee may also pre-approve particular services on a case-by-case basis. The Audit Committee has delegated pre-approval authority to the Chair of the Audit Committee. Pursuant to this delegation, the Chair must report any pre-approval decision to the Audit Committee at its first meeting after the pre-approval was obtained.

During fiscal years 2014 and 2013, all professional services provided by Ernst & Young LLP were pre-approved by the Audit Committee in accordance with our policies.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES
(a)(1) Financial Statements

The Financial Statements listed in the Index to Consolidated Financial Statements, filed as part of this Annual Report on Form 10-K.

(a)(2) Financial Statement Schedule

The Financial Statements Schedule listed in the Index to Consolidated Financial Statements, filed as part of this Annual Report on Form 10-K.

(a)(3) Exhibits

See Item 15(b) below.

(b) 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.

The agreements filed as Exhibits 2.1 and 2.8 to this Report have been attached as exhibits to provide investors and security holders with information regarding their respective terms. They are not intended to provide any other factual information about the Company or any of its affiliates or businesses. The representations, warranties, covenants and agreements contained in such exhibits were made only for the purposes of such agreement and as of specified dates, were solely for the benefit of the parties to such agreement and may be subject to limitations agreed upon by the contracting parties. The representations and warranties may have been made for the purposes of allocating contractual risk between the parties to such agreements instead of establishing these matters as facts, and may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors. Investors and security holders are not third-party beneficiaries under any of the agreements attached as exhibits hereto and should not rely on the representations, warranties, covenants and agreements or any descriptions thereof as characterizations of the actual state of facts or condition of the Company or any of its affiliates or businesses. Moreover, the assertions embodied in the representations and warranties contained in each such agreement are qualified by information in confidential disclosure letters or schedules that the parties have exchanged. Moreover, information concerning the subject matter of the representations and warranties may change after the respective dates of such agreements, which subsequent information may or may not be fully reflected in the Company’s public disclosures.

Exhibit

Number Description

2.1(11)	Agreement and Plan of Merger, dated as of May 6, 2011, by and among Warner Music Group Corp., AI Entertainment Holdings LLC (formerly Airplanes Music LLC), and Airplanes Merger Sub, Inc.
2.2*(19)	Share Purchase Agreement, dated as of February 6, 2013, by and among WMG UK and certain other subsidiaries of the Company, as Buyers, and WMG Acquisition, as Buyers' Guarantor, and EGH1 BV, EMI Group Holdings BV and DELTA Holdings BV, as Sellers (as defined therein), and Universal International Music BV, as Sellers' Guarantor (as defined therein) (Schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a copy of any omitted schedule to the SEC upon request.)
2.3(19)	Form of Share Purchase Agreement to be entered into upon exercise of the Put Option, delivered by Warner Music Holdings BV, as Buyer, and WMG Acquisition, as Buyer's Guarantor, to EMI Music France Holdco Limited, as Seller, and Universal International Music BV, as Seller's Guarantor on February 6, 2013 (Schedules and exhibits omitted pursuant to Item 601(b) (2) of Regulation S-K. The Company agrees to furnish a copy of any omitted schedule to the SEC upon request.)

Exhibit Number	Description
2.4*(19)	Put Option, dated as of February 6, 2013 (the "Put Option"), by and among Warner Music Holdings BV, as Buyer, and WMG Acquisition, as Buyer's Guarantor, and EMI Music France Holdco Limited, as Seller, and Universal International Music BV, as Seller's Guarantor (Schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a copy of any omitted schedule to the SEC upon request.)
2.5(19)	Amendment No. 1 to the Put Option, dated February 8, 2013
2.6*(19)	Separation Agreement, dated as of February 6, 2013, by and between EGH1 BV, as Seller, and WMG UK, as Buyer. (Schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a copy of any omitted schedule to the SEC upon request.)
2.7*(20)	Deed of Variation to the Share Sale and Purchase Agreement, dated as of June 28, 2013, by and among WM Holdings UK and certain other subsidiaries of the Company, as Buyers (as defined therein), and WMG Acquisition Corp., as Buyers' Guarantor (as defined therein), and EGH1 BV, EMI Group Holdings BV and DELTA Holdings BV, as Sellers (as defined therein), and Universal International Music BV, as Sellers' Guarantor (as defined therein) (Schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a copy of any omitted schedule to the SEC upon request.)
2.8(20)	Share Sale and Purchase Agreement relating to EMI Music France SAS, dated as of July 1, 2013, by and among Warner Music Holdings BV, as Buyer (as defined therein), WMG Acquisition Corp., as Buyer's Guarantor (as defined therein), EMI Records France Holdco Limited, as Seller (as defined therein), and Universal International Music BV, as Seller's Guarantor (as defined therein) (Schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company agrees to furnish a copy of any omitted schedule to the SEC upon request.)
3.1(12)	Third Amended and Restated Certificate of Incorporation of Warner Music Group Corp.
3.2(1)	Third Amended and Restated By-Laws of Warner Music Group Corp.
4.1(1)	Indenture, dated as of July 20, 2011, among WM Holdings Finance Corp. and Wells Fargo Bank, National Association, as Trustee, relating to the 13.75% Senior Notes due 2019 (the "13.75% Senior Notes due 2019")
4.2(14)	Indenture, dated as of November 1, 2012, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto, Credit Suisse AG, as Notes Authorized Agent and as Collateral Agent, and Wells Fargo Bank, National Association, as Trustee, providing for the issuance of secured notes in series (the "Secured Notes").
4.3(1)	Supplemental Indenture, dated as of July 20, 2011, among WMG Holdings Corp. and Wells Fargo Bank, National Association, as Trustee, relating to the 13.75% Senior Notes due 2019
4.4(13)	Second Supplemental Indenture, dated as of August 2, 2011, among WMG Holdings Corp. and Wells Fargo Bank, National Association, as Trustee, relating to the 13.75% Senior Notes due 2019
4.5(14)	Third Supplemental Indenture, dated as of October 30, 2012, among WMG Holdings Corp., Warner Music Group Corp., as guarantor, and Wells Fargo Bank, National Association, as Trustee, relating to the 13.75%

Senior Notes due 2019.

4.6(22) Fourth Supplemental Indenture, dated as of March 4, 2013, between WMG Holdings Corp. and Wells Fargo Bank, National Association, as Trustee, relating to the 13.75% Senior Notes due 2019

4.7(25) Fifth Supplemental Indenture, dated as of May 7, 2014, between WMG Holdings Corp. and Wells Fargo Bank, National Association, as trustee, relating to the 13.75% Senior Notes due 2019.

4.8(14) First Supplemental Indenture, dated as of November 1, 2012, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 6.250% Senior Secured Notes due 2021 (the "Euro Notes").

4.9(14) Second Supplemental Indenture, dated as of November 1, 2012, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 6.000% Senior Secured Notes due 2021 (the "Dollar Notes").

4.10(22) Third Supplemental Indenture, dated as of March 4, 2013, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 6.000% Senior Secured Notes due 2021 and the 6.250% Senior Secured Notes due 2021.

Exhibit Number	Description
4.11(26)	Fourth Supplemental Indenture, dated as of April 9, 2014, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 5.625% Senior Secured Notes due 2022.
4.12(26)	Indenture, dated as of April 9, 2014, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, providing for the issuance of unsecured senior notes in series.
4.13(26)	First Supplemental Indenture, dated as of April 9, 2014, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 6.750% Senior Notes due 2022.
4.14(26)	Fifth Supplemental Indenture, dated as of April 7, 2014, among WMG Acquisition Corp. the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 11.50% Senior Notes due 2018.
4.15	Form of 13.75% Senior Note due 2019 of WMG Holdings Corp. (included in Exhibit 4.1 hereto)
4.16	Form of Secured Note of WMG Acquisition Corp. (included in Exhibit 4.2 hereto)
4.17	Form of 6.750% Senior Notes due 2022 of WMG Acquisition Corp. (included in Exhibit 4.13 hereto)
4.18(13)	Guarantee, dated August 2, 2011, issued by Warner Music Group Corp., relating to the 13.75% Senior Notes due 2019
4.19(18)	Guarantee, dated November 16, 2012, issued by Warner Music Group Corp., relating to the Secured Notes.
4.20(25)	Guarantee, dated May 7, 2014, issued by Warner Music Group Corp., relating to the 5.625% Senior Secured Notes due 2022 and the 6.750% Senior Notes due 2022.
4.21(14)	Security Agreement, dated as of November 1, 2012, among WMG Acquisition Corp., WMG Holdings Corp., the guarantors listed on the signature pages thereto and Credit Suisse AG, as collateral agent, term loan authorized representative, revolving authorized representative and indenture authorized representative.
4.22(14)	Copyright Security Agreement, dated November 1, 2012, made by WMG Acquisition Corp. and the guarantors listed on the signature pages thereto in favor of Credit Suisse, AG, as collateral agent for the Secured First Lien Parties.
4.23(14)	Patent Security Agreement, dated November 1, 2012, made by WMG Acquisition Corp. and the guarantors listed on the signature pages thereto in favor of Credit Suisse, AG, as collateral agent for the Secured First Lien Parties.
4.24(14)	Trademark Security Agreement, dated November 1, 2012, made by WMG Acquisition Corp. and the guarantors listed on the signature pages thereto in favor of Credit Suisse, AG, as collateral agent for the Secured First Lien Parties.

4.25(26) Satisfaction and Discharge of Indenture, dated as of April 9, 2014, relating to the Indenture, dated as of July 20, 2011, as amended, among WMG Acquisition Corp., the guarantors party thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 11.50% Senior Notes due 2018.

10.1(14) Credit Agreement, dated as of November 1, 2012, among WMG Acquisition Corp., each lender from time to time party thereto, Credit Suisse AG, as administrative agent, Credit Suisse Securities (USA) LLC, Barclays Bank PLC, UBS Securities LLC, Macquarie Capital (USA) Inc. and Nomura Securities International, Inc., as joint bookrunners and joint lead arrangers, and Barclays Bank PLC and UBS Securities LLC, as syndication agents, relating to a revolving credit facility.

10.2(14) Credit Agreement, dated as of November 1, 2012, among WMG Acquisition Corp., each lender from time to time party thereto, Credit Suisse AG, as administrative agent, Credit Suisse Securities (USA) LLC, Barclays Bank PLC, UBS Securities LLC, Macquarie Capital (USA) Inc. and Nomura Securities International, Inc., as joint bookrunners and joint lead arrangers, and Barclays Bank PLC and UBS Securities LLC, as syndication agents, relating to a term loan credit facility.

10.3(29) First Amendment to Credit Agreement, dated as of April 23, 2013 among WMG Acquisition Corp., the lenders party thereto and Credit Suisse AG, as Administrative Agent relating to a revolving credit facility

Exhibit Number	Description
10.4(26)	Second Amendment to Credit Agreement, dated as of March 25, 2014, among WMG Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, issuing bank and lender, relating to a revolving credit facility.
10.5(29)	Incremental Commitment Amendment, dated as of May 9, 2013, by and among WMG Acquisition Corp., the other Loan Parties (as defined therein), WMG Holdings Corp., and the several banks and financial institutions parties thereto as Lenders and the Administrative Agent, as defined therein
10.6(14)	Subsidiary Guaranty, dated as of November 1, 2012, made by the persons listed on the signature pages thereto under the caption "Subsidiary Guarantors" and the Additional Guarantors in favor of the Secured Parties, relating to the revolving credit facility.
10.7(14)	Guarantee Agreement, dated as of November 1, 2012, made by the persons listed on the signature pages thereto under the caption "Subsidiary Guarantors" and the Additional Guarantors in favor of the Secured Parties, relating to the term credit facility.
10.8**(19)	Letter Agreement, dated as of December 21, 2012, between Warner Music Inc. and Brian Roberts
10.9**(19)	Letter Agreement, dated as of December 21, 2012, between Warner/Chappell Music, Inc. and Cameron Strang
10.10**(24)	Letter Agreement, dated as of December 20, 2012, between Warner Music Inc. and Robert Wiesenthal
10.11**(19)	Letter Agreement, dated as of February 11, 2013, between Warner Music Inc. and Brian Roberts
10.12(27)	Letter Agreement dated December 1, 2013, between Warner Music Inc. and Brian Roberts
10.13**$	Letter Agreement, dated as of September 30, 2014, between Warner Music Inc. and Eric Levin
10.14**(28)	Letter Agreement, dated as of February 11, 2011, between Warner Music Inc. and Paul M. Robinson
10.15**$	Letter Agreement, dated as of December 13, 2013, between Warner Music Inc. and Paul M. Robinson
10.16(2)	Office Lease, dated June 27, 2002, by and between Media Center Development, LLC and Warner Music Group Inc., as amended
10.17(2)	Lease, dated as of February 29, 2004, between Historical TW Inc. and Warner Music Group Inc.
10.18(21)	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. (the "Headquarters Lease")
10.19(21)	Guaranty of Headquarters Lease, dated as of October 1, 2013
10.20(6)	Assurance of Discontinuance, dated November 22, 2005
10.21(1)	

	Management Agreement, made as of July 20, 2011, by and among Warner Music Group Corp., WMG Holdings Corp, and Access Industries Inc.
10.22*(8)	US/Canada Manufacturing and PP&S Agreement, effective as of July 1, 2010, by and between Warner-Elektra-Atlantic Corporation and Cinram International Inc., Cinram Manufacturing LLC and Cinram Distribution LLC
10.23*(8)	US/Canada Transition Agreement, executed as of July 1, 2010, by and between Warner-Elektra-Atlantic Corporation and Cinram International Inc., Cinram Manufacturing LLC and Cinram Distribution LLC
10.24*(8)	International Manufacturing and PP&S Agreement, effective as of July 1, 2010, by and between WEA International, Inc. and Cinram International Inc., Cinram GmbH and Cinram Operations UK Limited
10.25*(8)	International Transition Agreement, executed as of July 1, 2010, by and between WEA International, Inc. and Cinram International Inc., Cinram GmbH and Cinram Operations UK Limited
10.26**(9)	Warner Music Group Corp. Deferred Compensation Plan

Exhibit Number	Description
10.27(10)	First Letter Amendment, dated January 14, 2011 to the US/Canada Manufacturing and PP&S Agreement, dated as of July 1, 2010, between Warner-Elektra-Atlantic Corporation and Cinram International Inc., Cinram Manufacturing LLC and Cinram Distribution LLC and the International Manufacturing and PP&S Agreement, dated as of July 1, 2010, between WEA International, Inc. and Cinram International Inc., Cinram GmbH and Cinram Operations UK Limited
10.28*(10)	Second Letter Amendment, dated January 21, 2011 to the US/Canada Manufacturing and PP&S Agreement, dated as of July 1, 2010, between Warner-Elektra-Atlantic Corporation and Cinram International Inc., Cinram Manufacturing LLC and Cinram Distribution LLC and Cinram International Inc., Cinram GmbH and Cinram Operations UK Limited
10.29*(10)	Third Letter Amendment, dated January 25, 2011 to the US/Canada Manufacturing and PP&S Agreement, dated as of July 1, 2010, between Warner-Elektra-Atlantic Corporation and Cinram International Inc., Cinram Manufacturing LLC and Cinram Distribution LLC and the International Manufacturing and PP&S Agreement, dated as of July 1, 2010, between WEA International Inc. and Cinram International Inc., Cinram GmbH and Cinram Operations UK Limited
10.30*(16)	Amendment No. 1 to US/Canada Agreements, effective as of January 31, 2012 between Warner-Elektra-Atlantic Corporation and Cinram International Inc., Cinram Manufacturing LLC and Cinram Distribution LLC
10.31(17)	Letter Agreement dated as of August 31, 2012 among Warner-Elektra-Atlantic Corporation, Cinram International Inc., Cinram Manufacturing LLC, Cinram Distribution LLC, Cinram Group, Inc. and Cinram Canada Operations ULC.
10.32(17)	Letter Agreement dated as of August 31, 2012 among WEA International Inc., Cinram International Inc., Cinram GMBH, Cinram Operations UK Limited and Cinram Group, Inc.
10.33**(3)	Form of Indemnification Agreement between Warner Music Group Corp. and its directors
10.34**(23)	Amended and Restated Warner Music Group Corp. Senior Management Free Cash Flow Plan
10.35**(24)	Amended and Restated Limited Liability Company Agreement of WMG Management Holdings, LLC, dated as of December 4, 2013
10.36**(30)	Form of Election for Warner Music Group Corp. Senior Management Free Cash Flow Plan
10.37**(23)	Form of Award Agreement under Warner Music Group Corp. Senior Management Free Cash Flow Plan
10.38**(25)	Form of Award Agreement for 2014 Additional Unit Allocation under Warner Music Group Corp. Senior Management Free Cash Flow Plan.
21.1$	List of Subsidiaries
24.1$	Power of Attorney (see signature page)

31.1$	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act, as amended
31.2$	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act, 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 Annual Report on Form 10-K of Warner Music Group Corp. for the fiscal year ended September 30, 2014, filed on December 11, 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 Audited Financial Statements
(c)	Financial Statement Schedules
	Schedule II—Valuation and Qualifying Accounts

$ Filed herewith

* Exhibit omits certain information that has been filed separately with the Securities and Exchange Commission and has been granted confidential treatment

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

*** Pursuant to SEC Release No. 33-8212, this certification will be treated as “accompanying” this Annual Report on Form 10-K and not “filed” as part of such report for purposes of Section 18 of the Securities Exchange Act, as amended, or otherwise subject to the liability of Section 18 of the Securities Exchange Act, 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, except to the extent that the registrant specifically incorporates it by reference

(1) Incorporated by reference to Warner Music Group Corp.’s Current report on Form 8-K filed on July 26, 2011 (File No. 001-32502)

(2) Incorporated by reference to WMG Acquisition Corp.’s Amendment No. 2 to the Registration Statement on Form S-4 filed on January 24, 2005 (File No. 333-121322)

(3) Incorporated by reference to Warner Music Group Corp.’s Current Report on Form 8-K filed on May 20, 2011 (File No. 001-32502)

(4) Incorporated by reference to Warner Music Group Corp.’s Current Report on Form 8-K filed on March 19, 2008 (File No. 001-32502)

(5) Incorporated by reference to Warner Music Group Corp.’s Current Report on Form 8-K filed on September 16, 2008 (File No. 001-32502)

(6) Incorporated by reference to Warner Music Group Corp.’s Current Report on Form 8-K filed on November 23, 2005 (File No. 001-32502)

(7) Incorporated by reference to Warner Music Group Corp.’s Current Report on Form 8-K filed on May 24, 2011 (File No. 001-32502)

(8) Incorporated by reference to Warner Music Group Corp.’s Quarterly Report on Form 10-Q for the period ended December 31, 2010 (File No. 001-32502)

(9) Incorporated by reference to Warner Music Group Corp.’s Registration Statement on Form S-8 filed on November 23, 2010 (File No. 333-170771)

(10) Incorporated by reference to Warner Music Group Corp.’s Quarterly Report on Form 10-Q for the period ended March 31, 2011 (File No. 001-32502)

(11) Incorporated by reference to Warner Music Group Corp.’s Current Report on Form 8-K filed on May 9, 2011 (File No. 001-32502)

(12) Incorporated by reference to Warner Music Group Corp.’s Current Report on Form 8-K filed on July 20, 2011 (File No. 001-32502)

(13) Incorporated by reference to Warner Music Group Corp.’s Current Report on Form 8-K filed on August 4, 2011 (File No. 001-32502)

(14) Incorporated by reference to Warner Music Group Corp.’s Current Report on Form 8-K filed on November 7, 2012 (File No. 001-32502)

(15) Incorporated by reference to Warner Music Group Corp.’s Current Report on Form 8-K filed on November 10, 2011 (File No. 001-32502)

(16) Incorporated by reference to Warner Music Group Corp.’s Quarterly Report on Form 10-Q for the period ended March 31, 2012 (File No. 001-32502)

(17) Incorporated by reference to Warner Music Group Corp.’s Current Report on Form 8-K filed on September 6, 2012 (File No. 001-32502)

(18) Incorporated by reference to Warner Music Group Corp.’s Current Report on Form 8-K Filed on November 19, 2012 (File No. 001-32502)

(19) Incorporated by reference to Warner Music Group Corp.’s Quarterly Report on Form 10-Q for the period ended December 31, 2012 (File No. 001-32502)

(20) Incorporated by reference to Warner Music Group Corp.’s Quarterly Report on Form 10-Q for the period ended June 30, 2013 (File No. 001-32502)

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

(22) Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K Filed on March 5, 2013 (File No. 001-32502)

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

(24) Incorporated by reference to Warner Music Group Corp.'s Annual Report on Form 10-K for the period ended September 30, 2013 (file. No. 001-32502)

(25) Incorporated by reference to Warner Music Group Corp.'s Quarterly Report on Form 10-Q for the period ended March 31, 2014 (File No. 001-32502)

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

(27) Incorporated by reference to Warner Music Group Corp.'s Quarterly Report on Form 10-Q for the period ended December 31, 2013 (File No. 001-32502)
(28) Incorporated by reference to Warner Music Group Corp.'s Annual Report on Form 10-K for the period ended September 30, 2011 (File No. 001-32502)
(29) Incorporated by reference to Warner Music Group Corp.'s Quarterly Report on Form 10-Q for the period ended March 30, 2013 (File No. 001-32502)
(30) Incorporated by reference to Warner Music Group Corp.'s Annual Report on Form 10-K for the period ended September 30, 2012 (file No. 001-32502)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, on December 11, 2014.

Warner Music Group Corp.

By:	/S/ STEPHEN COOPER
Name:	Stephen Cooper
Title:	Chief Executive Officer (Principal Executive Officer)
By:	/s/ ERIC LEVIN
Name:	Eric Levin
Title:	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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POWER OF ATTORNEY

KNOW BY ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints jointly and severally, Paul M. Robinson and Trent N. Tappe, and each of them, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities indicated on December 11, 2014.

Signature	Title
/s/ STEPHEN COOPER Stephen Cooper	CEO and President and Director (Chief Executive Officer)
/s/ CAMERON STRANG Cameron Strang	Chairman and CEO, Warner Bros. Records and Warner/Chappell Music and Director
/s/ LEN BLAVATNIK Len Blavatnik	Vice Chairman of the Board of Directors
/s/ LINCOLN BENET Lincoln Benet	Director
/s/ ALEX BLAVATNIK Alex Blavatnik	Director
/s/ MATHIAS DÖEPFNER Mathias Döepfner	Director
/s/ NOREENA HERTZ Noreena Hertz	Director
/s/ THOMAS H. LEE Thomas H. Lee	Director

/s/ JÖRG MOHAUPT Jörg Mohaupt	Director
/s/ OLIVER SLIPPER Oliver Slipper	Director
/s/ DONALD A. WAGNER Donald A. Wagner	Director

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