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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

OR

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

Warner Music Group Corp.

(Exact name of Registrant as specified in its charter)

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

1633 Broadway

New York, NY 10019

(Address of principal executive offices)

(212) 275-2000

(Registrant's telephone number, including area code)

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

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

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

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

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

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

There is no public market for the Registrant's common stock. As of August 8, 2017 the number of shares of the Registrant's common stock, par value $0.001 per share, outstanding was 1,055. All of the Registrant's common stock is owned by affiliates of Access Industries, Inc. The Registrant has filed all Exchange Act reports for the preceding 12 months.

WARNER MUSIC GROUP CORP.

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ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Warner Music Group Corp.

Consolidated Balance Sheets (Unaudited)

	June 30, 2017	September 30, 2016
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$567	$ 359
Accounts receivable, net of allowances of $53 million and $52 million	380	329
Inventories	38	41
Royalty advances expected to be recouped within one year	136	128
Prepaid and other current assets	57	51
Total current assets	1,178	908
Royalty advances expected to be recouped after one year	204	196
Property, plant and equipment, net	203	203
Goodwill	1,630	1,627
Intangible assets subject to amortization, net	2,020	2,201
Intangible assets not subject to amortization	117	116
Deferred tax assets, net	59	2
Other assets	68	82
Total assets	$5,479	$ 5,335
Liabilities and Equity		
Current liabilities:		
Accounts payable	$166	$ 204
Accrued royalties	1,248	1,104
Accrued liabilities	286	297
Accrued interest	24	38
Deferred revenue	161	178
Other current liabilities	53	21
Total current liabilities	1,938	1,842
Long-term debt	2,797	2,778
Deferred tax liabilities, net	159	269
Other noncurrent liabilities	260	236
Total liabilities	$5,154	$ 5,125
Equity:		
Common stock ($0.001 par value; 10,000 shares authorized; 1,055 shares issued and outstanding)	$—	$ —
Additional paid-in capital	1,128	1,128
Accumulated deficit	(615)	(715)
Accumulated other comprehensive loss, net	(205)	(218)

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

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

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

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

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

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

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

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

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

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Equity (Unaudited)

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

See accompanying notes

Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited)

1. Description of Business

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

Acquisition of Warner Music Group by Access Industries

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

Acquisition of Parlophone Label Group

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

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

Recorded Music Operations

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

In the United States, Recorded Music operations are conducted principally through the Company’s major record labels—Atlantic Records and Warner Bros. Records. The Company’s Recorded Music operations also include Rhino, a division that specializes in marketing the Company’s music catalog through compilations and reissuances of previously released music and video titles. The Company also conducts its Recorded Music operations through a collection of additional record labels, including Asylum, Big Beat, Canvasback, East West, Elektra, Erato, FFRR, Fueled by Ramen, Nonesuch, Parlophone, Reprise, Roadrunner, Sire, Warner Classics and Warner Music Nashville.

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

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

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

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

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

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

Music Publishing Operations

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

The Company’s Music Publishing operations are conducted principally through Warner/Chappell, its global Music Publishing company, headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. The Company owns or controls rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, its award-winning catalog includes over 70,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative, gospel and other Christian music. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Hallmark Entertainment and Disney Music Publishing. The Company has an extensive production music library collectively branded as Warner/Chappell Production Music.

2. Summary of Significant Accounting Policies

Interim Financial Statements

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

The consolidated balance sheet at September 30, 2016 has been derived from the audited consolidated financial statements at that date but does not include all of the information and notes required by U.S. GAAP for complete financial statements.

For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016 (File No. 001-32502).

Basis of Consolidation

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

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

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

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

Income Taxes

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

New Accounting Pronouncements

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

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

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

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

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

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

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

3. Comprehensive Income (Loss)

Comprehensive income (loss), which is reported in the accompanying consolidated statements of equity, consists of net income (loss) and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income (loss). For the Company, the components of other comprehensive income (loss) primarily consist of foreign currency translation gains and losses and minimum pension liabilities. The following summary sets forth the changes in the components of accumulated other comprehensive loss, net of related taxes of $7 million:

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

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

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

4. Goodwill and Intangible Assets

Goodwill

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

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

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

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

Intangible Assets

Intangible assets consist of the following:

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

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5. Debt

Debt Capitalization

Long-term debt consists of the following:

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

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

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

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

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

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

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

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

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

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

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

October 2016 Refinancing Transactions

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

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

November 2016 Senior Term Loan Credit Agreement Amendment

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

May 2017 Senior Term Loan Credit Agreement Amendment

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

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

5.625% Existing Secured Notes Redemption

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

Interest Rates

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

The loans under the Senior Term Loan Facility bear interest at Acquisition Corp.'s election at a rate equal to (i) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period ("Term Loan LIBOR"), plus 2.50% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent as its prime rate in effect at its principal office in New York City from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) three-month Term Loan LIBOR, plus 1.00% per annum, plus, in each case, 1.50% per annum. If there is a payment default at any time, then the interest rate applicable to overdue principal and interest will be the rate otherwise applicable to such loan plus 2.0% per annum. Default interest will also be payable on other overdue amounts at a rate of 2.0% per annum above the amount that would apply to an alternative base rate loan.

Maturity of Senior Term Loan Facility

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

Maturity of Revolving Credit Facility

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

Maturities of Senior Notes and Senior Secured Notes

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

Interest Expense, net

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

6. Commitments and Contingencies

Pricing of Digital Music Downloads

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

Upon remand to the District Court, all defendants, including the Company, filed a renewed motion to dismiss challenging, among other things, plaintiffs' state law claims and standing to bring certain claims. The renewed motion was based mainly on arguments made in defendants' original motion to dismiss, but not addressed by the District Court. On July 18, 2011, the District Court granted defendants' motion in part, and denied it in part. Notably, all claims on behalf of the CD-purchaser class were dismissed with prejudice. However, a wide variety of state and federal claims remain for the class of Internet download purchasers. On March 19, 2014, plaintiffs filed a motion for class certification. Plaintiffs filed an operative consolidated amended complaint on September 25, 2015. The Company filed its answer to the fourth amended complaint on October 9, 2015, and filed an amended answer on November 3, 2015. A mediation took place on February 22, 2016, but the parties were unable to reach a resolution. On July 12, 2017, the District Court denied plaintiffs' motion for class certification. On August 1, 2017, plaintiffs filed a petition with the Second Circuit seeking permission to appeal the district court's order denying class certification. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Regardless of the merits of the claims, this and any related litigation could continue to be costly, and divert the time and resources of management. The potential outcomes of these claims that are reasonably possible cannot be determined at this time and an estimate of the reasonably possible loss or range of loss cannot presently be made.

Sirius XM

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

Other Matters

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

7. Income Taxes

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

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

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

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

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

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

8. Derivative Financial Instruments

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

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

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

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

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

As of June 30, 2017, the Company had outstanding hedge contracts for the sale of $137 million and the purchase of $78 million of foreign currencies at fixed rates that will be settled by September 2017. As of June 30, 2017, the Company had less than $1 million of unrealized deferred income in comprehensive income related to foreign exchange hedging. As of September 30, 2016, the Company had no outstanding hedge contracts and no deferred gains or losses in comprehensive loss related to foreign exchange hedging.

The following is a summary of amounts recorded in the Consolidated Balance Sheet pertaining to the Company's use of foreign currency derivatives at June 30, 2017 and September 30, 2016:

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

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

9. Segment Information

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

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

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

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

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

10. Additional Financial Information

Cash Interest and Taxes

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

Special Cash Dividends

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

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

11. Fair Value Measurements

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

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

- Level 1—inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2—inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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- Level 3—inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models and similar techniques.

In accordance with the fair value hierarchy, described above, the following table shows the fair value of the Company's financial instruments that are required to be measured at fair value as of June 30, 2017 and September 30, 2016.

	Fair Value Measurements as of June 30, 2017			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Assets:				
Foreign Currency Forward Exchange Contracts (a)	$ —	$ —	$ —	$ —
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	—	(2)	—	(2)
Other Current Liabilities:				
Contractual Obligations (b)	—	—	—	—
Other Non-Current Liabilities:				
Contractual Obligations (b)	—	—	(5)	(5)
Total	$ —	$ (2)	$ (5)	$ (7)

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

(a) The fair value of the foreign currency forward exchange contracts is based on dealer quotes of market forward rates and reflects the amount that the Company would receive or pay at their maturity dates for contracts involving the same currencies and maturity dates.

(b) This represents purchase obligations and contingent consideration related to the Company's various acquisitions. This is based on a discounted cash flow approach and it is adjusted to fair value on a recurring basis and any adjustments are included as a component of operating income in the statement of operations. These amounts were mainly calculated using unobservable inputs such as future earnings performance of the Company's various acquisitions and the expected timing of the payment.

The following table reconciles the beginning and ending balances of net assets and liabilities classified as Level 3:

	Total
	(in millions)

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

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

Fair Value of Debt

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

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Financial Statements

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

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

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

Consolidating Balance Sheet (Unaudited)

June 30, 2017

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

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

Consolidating Balance Sheet

September 30, 2016

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

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

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Consolidating Statement of Operations (Unaudited)

For The Three Months Ended June 30, 2017

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

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Consolidating Statement of Operations (Unaudited)

For The Three Months Ended June 30, 2016

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

Consolidating Statement of Operations (Unaudited)

For The Nine Months Ended June 30, 2017

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

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Consolidating Statement of Operations (Unaudited)

For The Nine Months Ended June 30, 2016

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

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Consolidating Statement of Comprehensive Income (Unaudited)

For The Three Months Ended June 30, 2017

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

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Consolidating Statement of Comprehensive Income (Unaudited)

For The Three Months Ended June 30, 2016

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

Consolidating Statement of Comprehensive Income (Unaudited)

For The Nine Months Ended June 30, 2017

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

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Consolidating Statement of Comprehensive Income (Unaudited)

For The Nine Months Ended June 30, 2016

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

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Consolidating Statement of Cash Flows (Unaudited)

For The Nine Months Ended June 30, 2017

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

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

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

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Consolidating Statement of Cash Flows (Unaudited)

For The Nine Months Ended June 30, 2016

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Cash flows from operating activities									
Net income	$48	$ 122	$ 53	$ (171)	$ 52	$ 29	$ 29	$ (77)	$ 33
Adjustments to reconcile net income (loss) to net cashprovided by operating activities:									
Depreciation and amortization	—	120	105	—	225	—	—	—	225
Unrealized (gains)/losses and remeasurement of foreign denominated loans	(2)	—	14	—	12	—	—	—	12
Deferred income taxes	—	—	(15)	—	(15)	—	—	—	(15)
Gain on sale of real estate	—	—	(24)	—	(24)	—	—	—	(24)
(Gain) loss on extinguishment of debt	(1)	—	—	—	(1)	5	—	—	4
Net gain on divestitures	—	(2)	(6)	—	(8)	—	—	—	(8)
Non-cash interest expense	7	—	—	—	7	1	—	—	8
Equity-based compensation expense	—	9	—	—	9	—	—	—	9
Equity (gains) losses, including distributions	(132)	(67)	—	199	—	(48)	(29)	77	—
Changes in operating assets and liabilities:									
Accounts receivable	—	3	(10)	—	(7)	—	—	—	(7)
Inventories	—	2	1	—	3	—	—	—	3
Royalty advances	—	(15)	(36)	—	(51)	—	—	—	(51)
Accounts payable and accrued liabilities	—	154	(173)	(28)	(47)	—	—	—	(47)
Royalty payables	—	51	52	—	103	—	—	—	103
Accrued interest	(6)	—	—	—	(6)	(7)	—	—	(13)
Deferred revenue	—	(29)	(6)	—	(35)	—	—	—	(35)
Other balance sheet changes	(3)	(2)	15	—	10	—	—	—	10
Net cash (used in) provided by operating activities	(89)	346	(30)	—	227	(20)	—	—	207

Cash flows from investing activities									
Acquisition of music publishing rights, net	—	(11)	(3)	—	(14)	—	—	—	(14)
Capital expenditures	—	(22)	(9)	—	(31)	—	—	—	(31)
Investments and acquisitions of businesses, net	—	(5)	(18)	—	(23)	—	—	—	(23)
Divestitures, net	—	4	23	—	27	—	—	—	27
Proceeds from the sale of real estate	—	—	42	—	42	—	—	—	42
Advances to issuer	196	—	—	(196)	—	—	—	—	—
Net cash provided by (used in) investing activities	196	(34)	35	(196)	1	—	—	—	1
Cash flows from financing activities									
Dividend by Acquisition Corp. to Holdings Corp.	(73)	—	—	—	(73)	73	—	—	—
Repayment of Acquisition Corp. Senior Term Loan Facility	(10)	—	—	—	(10)	—	—	—	(10)
Repayment of Holdings 13.75% Senior Notes	—	—	—	—	—	(50)	—	—	(50)
Call premiums paid on early redemption of debt	—	—	—	—	—	(3)	—	—	(3)
Repayment of Acquisition Corp. 6.75% Senior Notes	(24)	—	—		(24)	—	—	—	(24)
Distribution to noncontrolling interest holder	—	—	(4)	—	(4)	—	—	—	(4)
Repayment of capital lease obligations	—	—	(14)	—	(14)	—	—	—	(14)
Change in due to (from) issuer	—	(196)	—	196	—	—	—	—	—
Net cash provided by (used in) financing activities	(107)	(196)	(18)	196	(125)	20	—	—	(105)
Effect of exchange rate changes on cash and equivalents	—	—	(4)	—	(4)	—	—	—	(4)
Net increase (decrease) in cash and equivalents	—	116	(17)	—	99	—	—	—	99
Cash and equivalents at beginning of period	—	73	173	—	246	—	—	—	246
Cash and equivalents at end of period	$—	$ 189	$ 156	$ —	$ 345	$ —	$ —	$ —	$ 345

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our results of operations and financial condition with the unaudited interim financial statements included elsewhere in this Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2017 (the "Quarterly Report").

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

This Quarterly Report includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Quarterly Report, including, without limitation, statements regarding our future financial position, business strategy, 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 variations thereon or similar terminology. Such statements include, among others, our ability to compete in the highly competitive markets in which we operate, 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 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, our success in limiting piracy, 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 or retire our outstanding debt or notes in open market purchases, privately or otherwise, the impact on us of potential strategic transactions, our ability to fund our future capital needs and the effect of litigation on us. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this Quarterly Report. Additionally, important factors could cause our actual results to differ materially from the forward-looking statements we make in this Quarterly Report. As stated elsewhere in this Quarterly Report, such risks, uncertainties and other important factors include, among others:

- the failure of the digital portion of the global recorded music industry to grow or grow at a significant rate to offset declines in the physical portion of the global recorded 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 digital piracy;
- 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 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;
- 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 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 information technology (“IT”) infrastructure and certain finance and accounting functions;
- our ability to maintain the security of information relating to our customers, employees and vendors and our music-based content;
- 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, together with its affiliates, 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;
- 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 Quarterly Report and in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

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 "Risk Factors" section of this Quarterly Report to better understand the risks and uncertainties inherent in our business and underlying any forward-looking statements.

All forward-looking statements attributable to us or persons acting on our behalf apply only as of the date of this Quarterly Report and are expressly qualified in their entirety by the cautionary statements included in this Quarterly Report. We disclaim any duty to update or revise forward-looking statements to reflect events or circumstances after the date made or to reflect the occurrence of unanticipated events.

INTRODUCTION

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

The Company and Holdings are holding companies that conduct substantially all of their business operations through their subsidiaries. The terms "we," "us," "our," "ours," and the "Company" refer collectively to Warner Music Group Corp. an its consolidated subsidiaries, except where otherwise indicated.

Management's discussion and analysis of results of operations and financial condition ("MD&A") is provided as a supplement to the unaudited financial statements and footnotes included elsewhere herein to help provide an understanding of our financial condition, changes in financial condition and results of our operations. MD&A is organized as follows:

- Overview. This section provides a general description of our business, as well as 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 three and nine months ended June 30, 2017 and June 30, 2016. 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 nine months ended June 30, 2017 and June 30, 2016 as well as a discussion of our financial condition and liquidity as of June 30, 2017. The discussion of our financial condition and liquidity includes a summary of the key debt covenant compliance measures under our debt agreements.

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 ("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 and other non-operating income (loss). Accordingly, OIBDA should be considered in addition to, not as a substitute for, operating income (loss), 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 (loss) and net income (loss) attributable to Warner Music Group Corp. is provided in our "Results of Operations."

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Use of Constant Currency

As exchange rates are an important factor in understanding period to period comparisons, we believe the presentation of revenue 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 revenue between periods as if exchange rates had remained constant period over period. We use revenue on a constant-currency basis as one measure to evaluate our performance. We calculate constant currency by calculating prior-year revenue 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.” This revenue should be considered in addition to, not as a substitute for, revenue reported in accordance with U.S. GAAP. Revenue 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 marketing and promoting artists and their products.

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

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

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; and various distribution centers and ventures operated internationally.

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

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

We believe that entering into expanded-rights deals and enhancing our artist services capabilities in areas such as concert promotion and management has permitted us to diversify revenue streams and capitalize on other revenue opportunities. This provides for improved long-term relationships with artists and allows us to more effectively connect artists and fans.

Recorded Music revenues are derived from four main sources:

- Digital: the rightsholder receives revenues with respect to digital download and digital streaming services;
- Physical: the rightsholder receives revenues with respect to sales of physical products such as CDs, vinyl and DVDs;
- 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 sound recordings in combination with visual images such as in films or television programs, television commercials and videogames; the rightsholder also receives royalties if sound recordings are performed publicly through broadcast of music on television, radio and cable, 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; and (iii) creating master recordings in the studio;
- Product costs—the costs to manufacture, package and distribute products 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 the costs related to our artist services business;
- 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 expenses.

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 70,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative, gospel and other Christian music. Warner/Chappell also administers the music and soundtracks of several third-party television and film producers and studios, including Hallmark Entertainment and Disney Music Publishing. We have an extensive production music library 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 and cable, live performance at a concert or other venue (e.g., arena concerts and nightclubs), and performance of music in staged theatrical productions;
- Digital: the rightsholder receives revenues with respect to compositions embodied in recordings sold in digital download services, digital streaming services and digital performance;
- Mechanical: the rightsholder receives revenues with respect to compositions embodied in recordings sold in any physical format or configuration such as CDs, vinyl 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; and
- Other: the rightsholder receives revenues for use in printed sheet music and other uses.

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
- Selling and marketing, general overhead and other administrative expenses—the costs associated with selling and marketing, general overhead and other administrative expenses.

Recent Developments

May 2017 Senior Term Loan Credit Agreement Amendment

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

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

Pandora

On April 17, 2014, we joined with UMG Recordings, Inc., Sony Music Entertainment, Capitol Records, LLC and ABKCO Music & Records, Inc. in a lawsuit brought against Pandora Media Inc. in the Supreme Court of the State of New York, alleging copyright infringement for Pandora's use of pre-1972 sound recordings. A settlement was reached on October 23, 2015 pursuant to which Pandora paid the plaintiffs a total of $90 million and the plaintiffs dismissed their lawsuit with prejudice. Of the total $90 million, $60 million was paid upon settlement and the remaining amount was paid in four equal installments of $7.5 million from January 1, 2016 through October 1, 2016. The settlement resolves all past claims as to Pandora's use of pre-1972 recordings owned or controlled by the plaintiffs and enabled Pandora, without any additional payment, to reproduce, perform and broadcast such recordings in the United States through December 31, 2016. The allocation of the settlement proceeds among the plaintiffs was determined in November 2016 and the settlement proceeds were distributed accordingly. This resulted in a cash distribution to the Company of $18 million, which was recognized in revenue during the first quarter of fiscal year 2017. We intend to share our allocation of the settlement proceeds with our artists on the same basis as statutory revenue from Pandora is shared, i.e., the artist share of our allocation will be paid to artists by SoundExchange.

November 2016 Senior Term Loan Credit Agreement Amendment

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

5.625% Existing Secured Notes Redemption

On November 21, 2016, Acquisition Corp. redeemed 10%, or $27.5 million, of its 5.625% Senior Secured Notes due 2022 (the "5.625% Secured Notes"). The redemption price was equal to 103% of the principal amount of the 5.625% Secured Notes, plus accrued and unpaid interest to, but not including the redemption date. Following the partial redemption by Acquisition Corp. of the 5.625% Secured Notes, $247.5 million of the 5.625% Secured Notes remain outstanding.

October 2016 Refinancing Transactions

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

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

Other Business Models to Drive Incremental Revenue

Artist Services and Expanded-Rights Deals

As another means to offset declines in physical revenues and download revenues in Recorded Music, for many years we have signed recording artists to expanded-rights deals. Under our expanded-rights deals, we participate in the recording artist's revenue streams, other than from recorded music sales, such as touring, 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 10% of our total revenue during the nine months ended June 30, 2017. 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 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, participation in revenue from touring under our expanded-rights deals typically flows straight through to operating income with little associated cost. Revenue from some of our artist services businesses such as our management business and revenue from participation in touring and sponsorships under our expanded-rights deals are all high margin, while merchandising revenue under our expanded-rights deals and revenue from some of our artist services businesses such as our concert promotion businesses tend to be lower margin than our traditional revenue streams in Recorded Music.

RESULTS OF OPERATIONS

Three Months Ended June 30, 2017 Compared with Three Months Ended June 30, 2016

Consolidated Results

Revenues

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

	For the Three Months Ended			
	June 30, 2017	2016	2017 vs. 2016 $ Change	% Change
Revenue by Type				
Digital	$ 448	$ 348	$100	29 %
Physical	163	178	(15)	-8 %
Total Digital and Physical	611	526	85	16 %
Artist services and expanded-rights	93	92	1	1 %
Licensing	66	62	4	6 %
Total Recorded Music	770	680	90	13 %
Performance	52	51	1	2 %
Digital	50	34	16	47 %
Mechanical	18	19	(1)	-5 %
Synchronization	27	27	—	— %
Other	3	3	—	— %
Total Music Publishing	150	134	16	12 %
Intersegment eliminations	(3)	(3)	—	— %
Total Revenue	$ 917	$ 811	$106	13 %
Revenue by Geographical Location				
U.S. Recorded Music	$ 341	$ 277	$64	23 %
U.S. Music Publishing	66	57	9	16 %
Total U.S.	407	334	73	22 %
International Recorded Music	429	403	26	6 %
International Music Publishing	84	77	7	9 %
Total International	513	480	33	7 %
Intersegment eliminations	(3)	(3)	—	— %
Total Revenue	$ 917	$ 811	$106	13 %

Total Revenue

Total revenue increased by $106 million, or 13%, to $917 million for the three months ended June 30, 2017 from $811 million for the three months ended June 30, 2016. Excluding the unfavorable impact of foreign currency exchange rates, total revenue increased by $123 million, or 16%. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 84% and 16% of total revenue for the three months ended June 30, 2017, respectively, and 83% and 17% of total revenue for the three months ended June 30, 2016, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 44% and 56% of total revenue for the three months ended June 30, 2017 and 41% and 59% of total revenue for the three months ended June 30, 2016, respectively.

Total digital revenue after intersegment eliminations increased by $115 million, or 30%, to $496 million for the three months ended June 30, 2017 from $381 million for the three months ended June 30, 2016. Excluding the unfavorable impact of foreign currency exchange rates, total digital revenue after intersegment eliminations increased by $123 million, or 33%. Total digital revenue represented 54% and 47% of consolidated revenue for the three months ended June 30, 2017 and June 30, 2016, respectively. Prior to intersegment eliminations, total digital revenue for the three months ended June 30, 2017 was comprised of U.S. revenue of $266 million and international revenue of $232 million, or 53% and 47% of total digital revenue, respectively. Prior to intersegment eliminations, total digital revenue for the three months ended June 30, 2016 was comprised of U.S. revenue of $202 million and international revenue of $180 million, or 53% and 47% of total digital revenue, respectively.

Recorded Music revenue increased by $90 million, or 13%, to $770 million for the three months ended June 30, 2017 from $680 million for the three months ended June 30, 2016. Excluding the unfavorable impact of foreign currency exchange rates, Recorded Music revenue increased by $104 million, or 16%. U.S. Recorded Music revenues were $341 million and $277 million, or 44% and 41%, of consolidated Recorded Music revenues for the three months ended June 30, 2017 and June 30, 2016, respectively. International Recorded Music revenues were $429 million and $403 million, or 56% and 59%, of consolidated Recorded Music revenues for the three months ended June 30, 2017 and June 30, 2016, respectively.

The overall increase in Recorded Music revenue was driven by increases in digital revenue, licensing revenue, and artist services and expanded-rights revenue, partially offset by a decrease in physical revenue. Digital revenue increased by $100 million as a result of release success from Ed Sheeran and Bruno Mars and the continued growth in streaming services. Revenue from streaming services grew by $133 million to $360 million for the three months ended June 30, 2017 from $227 million for the three months ended June 30, 2016 and was partially offset by digital download and other digital declines of $33 million to $88 million for the three months ended June 30, 2017 from $121 million for the three months ended June 30, 2016. Licensing revenue increased by $4 million primarily due to increased synchronization activity. Artist services and expanded-rights revenue increased by $1 million primarily due to merchandise revenue and ticket sales generated from successful U.S. artists offset by lower concert promotion revenue internationally. Physical revenue decreased by $15 million primarily due to the continued shift from physical revenue to digital revenue and strong catalog sales in the prior year.

Music Publishing revenues increased by $16 million, or 12%, to $150 million for the three months ended June 30, 2017 from $134 million for the three months ended June 30, 2016. Excluding the unfavorable impact of foreign currency exchange rates, Music Publishing revenue increased by $19 million, or 15%. U.S. Music Publishing revenues were $66 million and $57 million, or 44% and 42% of Music Publishing revenues for the three months ended June 30, 2017 and June 30, 2016, respectively. International Music Publishing revenues were $84 million and $77 million, or 56% and 58%, of Music Publishing revenues for the three months ended June 30, 2017 and June 30, 2016, respectively.

The overall increase in Music Publishing revenue was mainly driven by increases in digital revenue of $16 million and performance revenue of $1 million, partially offset by a decrease in mechanical revenue of $1 million. The increase in digital revenue was due to an increase in streaming revenue of $18 million driven by the continued growth in streaming services, partially offset by a decrease in digital download revenue of $2 million.

Revenue by Geographical Location

U.S. revenue increased by $73 million, or 22%, to $407 million for the three months ended June 30, 2017 from $334 million for the three months ended June 30, 2016. U.S. Recorded Music revenue increased by $64 million, or 23%. The primary driver was the increase in U.S. Recorded Music digital revenue, which increased by $56 million driven by the success of Ed Sheeran and Bruno Mars and the continued growth in streaming services. Streaming revenue increased by $83 million, partially offset by a $27 million decline in digital download revenue. U.S. Recorded Music licensing revenue increased by $9 million primarily due to increased synchronization activity. U.S. Recorded Music artist services and expanded-rights revenue increased by $5 million primarily due to merchandise revenue and ticket sales generated from successful U.S. artists. These increases were partially offset by a decline in U.S. physical revenue of $6 million due to the shift from physical revenue to digital revenue and strong catalog sales in the prior year quarter. U.S. Music Publishing revenue increased by $9 million, or 16%, to $66 million for the three months ended June 30, 2017 from $57 million for the three months ended June 30, 2016. This was primarily driven by the increase in U.S. Music Publishing digital revenue of $8 million due to increases in streaming revenue of $10 million due to continued growth in streaming services, partially offset by declines in digital download revenue of $2 million.

International revenue increased by $33 million, or 7%, to $513 million for the three months ended June 30, 2017 from $480 million for the three months ended June 30, 2016. Excluding the unfavorable impact of foreign currency exchange rates, International revenue increased by $51 million or 11%. International Recorded Music revenue increased $26 million primarily due to increases in digital revenue of $44 million, partially offset by decreases in physical revenue of $9 million, licensing revenue of $5 million and artist services and expanded-rights revenue of $4 million. International Recorded Music digital revenue increased due to a $50 million increase in streaming revenue, partially offset by a $6 million decline in digital download and other digital revenue. The increase in International Recorded Music streaming revenue was due to the successes of Ed Sheeran and Bruno Mars and the continued growth in streaming services internationally. International Recorded Music physical revenue decreased due to the unfavorable impact of foreign currency exchange rates of $4 million. International artist services and expanded-rights revenue decreased due to the successful tours in Italy and Japan in the prior year, partially offset by increased concert promotion revenue in France in the current year. International Recorded Music licensing revenue decreased due to the unfavorable impact of foreign currency exchange rates of $3 million and timing of distributions. International Music Publishing revenue increased by $7 million, or 9%, to $84 million for the three months ended June 30, 2017 from $77 million for the three months ended June 30, 2016. This was primarily driven by the increase in International Music Publishing digital revenue of $8 million due to an increase in streaming revenue of $8 million.

Cost of revenues

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

	For the Three Months Ended			
	June 30,		2017 vs. 2016	
	2017	2016	$ Change	% Change
Artist and repertoire costs	$ 358	$ 295	$ 63	21 %
Product costs	161	153	8	5 %
Total cost of revenues	$ 519	$ 448	$ 71	16 %

Total cost of revenues increased by $71 million to $519 million for the three months ended June 30, 2017 from $448 million for the three months ended June 30, 2016. Expressed as a percentage of revenues, cost of revenues increased to 57% for the three months ended June 30, 2017 from 55% for the three months ended June 30, 2016.

Artist and repertoire costs increased by $63 million, to $358 million for the three months ended June 30, 2017 from $295 million for the three months ended June 30, 2016. Artist and repertoire costs as a percentage of revenue increased to 39% for the three months ended June 30, 2017 from 36% for the three months ended June 30, 2016. The increase was due to the mix in revenue, specifically strong performance from lower margin repertoire and higher artist related costs.

Product costs increased by $8 million, to $161 million for the three months ended June 30, 2017 from $153 million for the three months ended June 30, 2016. Product costs as a percentage of revenue decreased to 18% for the three months ended June 30, 2017 from 19% for the three months ended June 30, 2016. The decrease was primarily driven by the decline in concert promotion revenue and physical revenue, which has higher costs and yields lower margins.

Selling, general and administrative expenses

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

	For the Three Months Ended			
	June 30,		2017 vs. 2016	
	2017	2016	$ Change	% Change
General and administrative expense (1)	$ 166	$ 135	$ 31	23 %
Selling and marketing expense	115	106	9	8 %
Distribution expense	15	14	1	7 %
Total selling, general and administrative expense	$ 296	$ 255	$ 41	16 %

(1) Includes depreciation expense of $13 million and $12 million for the three months ended June 30, 2017 and June 30, 2016, respectively.

Total selling, general and administrative expense increased by $41 million, or 16%, to $296 million for the three months ended June 30, 2017 from $255 million for the three months ended June 30, 2016. Expressed as a percentage of revenue, selling, general and administrative expense increased to 32% for the three months ended June 30, 2017 from 31% for the three months ended June 30, 2016.

General and administrative expense increased by $31 million, or 23%, to $166 million for the three months ended June 30, 2017 from $135 million for the three months ended June 30, 2016. The increase in general and administrative expense was primarily due to an increase in variable compensation expense of $13 million associated with improved operating performance and a $4 million loss on divestitures compared to a $11 million gain on divestitures in the prior year. The current year includes costs related to our U.S. shared services relocation of $2 million. Expressed as a percentage of revenue, general and administrative expense increased to 18% for the three months ended June 30, 2017 from 17% for the three months ended June 30, 2016.

Selling and marketing expense increased by $9 million, or 8%, to $115 million for the three months ended June 30, 2017 from $106 million for the three months ended June 30, 2016. The increase in selling and marketing expense was primarily due to increased variable marketing expense on higher revenue in the quarter. Expressed as a percentage of revenue, selling and marketing expense remained flat at 13% for the three months ended June 30, 2017 and June 31, 2016.

Distribution expense increased by $1 million, or 7%, to $15 million for the three months ended June 30, 2017 from $14 million for the three months ended June 30, 2016. Expressed as a percentage of revenue, distribution expense remained flat at 2% for the three months ended June 30, 2017 and June 30, 2016.

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

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

	For the Three Months Ended		2017 vs. 2016	
	June 30, 2017	2016	$ Change	% Change
Net income (loss) attributable to Warner Music Group Corp.	$ 141	$ (9)	$150	— %
Income attributable to noncontrolling interest	2	2	—	— %
Net income (loss)	143	(7)	150	— %
Income tax (benefit) expense	(152)	4	(156)	— %
Loss before income taxes	(9)	(3)	(6)	— %
Other expense, net	21	5	16	— %
Interest expense, net	36	43	(7)	-16 %
Loss on extinguishment of debt	3	—	3	— %
Operating income	51	45	6	13 %
Amortization expense	51	63	(12)	-19 %
Depreciation expense	13	12	1	8 %
OIBDA	$ 115	$ 120	$(5)	-4 %

OIBDA

OIBDA decreased by $5 million, or 4%, to $115 million for the three months ended June 30, 2017 as compared to $120 million for the three months ended June 30, 2016 as a result of higher artist and repertoire costs and higher general and administrative expenses. Expressed as a percentage of total revenue, OIBDA decreased to 13% for the three months ended June 30, 2017 from 15% for the three months ended June 30, 2016.

Depreciation expense

Our depreciation expense increased by $1 million, or 8%, to $13 million for the three months ended June 30, 2017 from $12 million for the three months ended June 30, 2016.

Amortization expense

Our amortization expense decreased by $12 million, or 19%, to $51 million for the three months ended June 30, 2017 from $63 million for the three months ended June 30, 2016, primarily due to intangible assets becoming fully amortized and the impact of foreign currency exchange rates.

Operating income

Our operating income increased by $6 million to $51 million for the three months ended June 30, 2017 from $45 million for the three months ended June 30, 2016. The increase in operating income was due to the decrease in amortization expense, partially offset by a decrease in OIBDA, as noted above.

Loss on extinguishment of debt

We recorded a loss on extinguishment of debt in the amount of $3 million for the three months ended June 30, 2017 related to the May 2017 Senior Term Loan Credit Agreement Amendment. There was no such activity or comparable charges in the three months ended June 30, 2016.

Interest expense, net

Our interest expense, net, decreased by $7 million, or 16%, to $36 million for the three months ended June 30, 2017 from $43 million for the three months ended June 30, 2016 due to the reduction in our debt and lower interest rates as a result of the October 2016 Refinancing Transactions and our debt redemptions and debt prepayments in the fiscal year ended September 30, 2016.

Other expense, net

Other expense for the quarter includes foreign currency losses on our Euro denominated debt and derivative liabilities of $31 million, as well as a $6 million loss on investments, partially offset by currency exchange gains on our intercompany loans of $13 million compared to other expense in the prior year due currency exchange losses on our intercompany loans of $13 million partially offset by currency exchange gains on our Euro denominated debt of $1 million and gain on sale of assets of $5 million.

Income tax (benefit) expense

We recognized an income tax benefit of $152 million for the three months ended June 30, 2017 as compared to an income tax expense of $4 million for the three months ended June 30, 2016. The change of $156 million in the income tax benefit primarily relates to a discrete U.S. tax benefit of $128 million for the reversal of a significant portion of our U.S. deferred tax asset valuation allowance, a discrete U.S. tax benefit of $51 million related to foreign currency losses on intra-entity loans, offset by $27 million of U.S. income tax expense for the three months ended June 30, 2017, as compared to the three months ended June 30, 2016 where no U.S. income tax expense was recorded. As a reliable estimate of the annual effective tax rate could not be made, our income tax expense for the three months ended June 30, 2016 was calculated based on a discrete tax rate.

Net Income (loss)

Net income increased by $150 million to net income of $143 million for the three months ended June 30, 2017 from a net loss of $7 million for the three months ended June 30, 2016 as a result of the factors described above.

Noncontrolling interest

Income attributable to noncontrolling interest was $2 million for both the three months ended June 30, 2017 and the three months ended June 30, 2016.

Business Segment Results

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

	For the Three Months Ended				
	June 30,		2017 vs. 2016		
	2017	2016	$ Change	% Change	
Recorded Music					
Revenue	$ 770	$ 680	$90	13	%
Operating income	77	64	13	20	%

OIBDA	120	119	1	1	%
Music Publishing					
Revenue	150	134	16	12	%
Operating income	6	6	—	—	%
OIBDA	23	23	—	—	%
Corporate expenses and eliminations					
Revenue elimination	(3)	(3)	—	—	%
Operating loss	(32)	(25)	(7)	28	%
OIBDA loss	(28)	(22)	(6)	27	%
Total					
Revenue	917	811	106	13	%
Operating income	51	45	6	13	%
OIBDA	115	120	(5)	-4	%

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Recorded Music

Revenues

Recorded Music revenue increased by $90 million, or 13%, to $770 million for the three months ended June 30, 2017 from $680 million for the three months ended June 30, 2016. U.S. Recorded Music revenues were $341 million and $277 million, or 44% and 41%, of consolidated Recorded Music revenues for the three months ended June 30, 2017 and June 30, 2016, respectively. International Recorded Music revenues were $429 million and $403 million, or 56% and 59% of consolidated Recorded Music revenues for the three months ended June 30, 2017 and June 30, 2016, respectively.

The overall increase in Recorded Music revenue was mainly driven by strong releases and streaming revenue growth as described in the "Total Revenues" and "Revenue by Geographical Location" sections above.

Cost of revenues

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

	For the Three Months Ended			
	June 30,		2017 vs. 2016	
	2017	2016	$ Change	% Change
Artist and repertoire costs	$ 249	$ 201	$48	24 %
Product costs	161	153	8	5 %
Total cost of revenues	$ 410	$ 354	$56	16 %

Recorded Music cost of revenues increased by $56 million, or 16%, to $410 million for the three months ended June 30, 2017 from $354 million for the three months ended June 30, 2016. Expressed as a percentage of Recorded Music revenue, Recorded Music artist and repertoire costs increased to 32% for the three months ended June 30, 2017 from 30% for the three months ended June 30, 2016. The increase in artist and repertoire costs was primarily due to higher royalty expense associated with higher revenues and the shift in repertoire mix towards lower margin deals and higher artist related costs. Expressed as a percentage of Recorded Music revenue, Recorded Music product costs decreased to 21% for the three months ended June 30, 2017 from 23% for the three months ended June 30, 2016. The decrease in product costs was primarily driven by lower costs associated with artist services and expanded-rights revenue, specifically the decline in concert promotion revenue, which tends to have higher costs and yield lower margins and the decrease in physical revenue.

Selling, general and administrative expense

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

	For the Three Months Ended	
	June 30,	2017 vs. 2016

	2017	2016	$ Change	% Change
General and administrative expense (1)	$ 119	$ 96	$ 23	24 %
Selling and marketing expense	114	105	9	9 %
Distribution expense	15	14	1	7 %
Total selling, general and administrative expense	$ 248	$ 215	$ 33	15 %

(1) Includes depreciation expense of $8 million for both the three months ended June 30, 2017 and June 30, 2016.
Recorded Music selling, general and administrative expense increased by $33 million, or 15%, to $248 million for the three months ended June 30, 2017 from $215 million for the three months ended June 30, 2016. The increase in Recorded Music general and administrative expense was primarily due to an increase in variable compensation expense of $9 million associated with improved operating performance and a $4 million loss on divestitures compared to a $9 million gain on divestitures in the prior year. The increase in selling and marketing expense was primarily due to the increase in variable marketing expense and was in line with the increase in revenue. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense remained flat at 32% for the three months ended June 30, 2017 and the three months ended June 30, 2016.

Operating income and OIBDA

Recorded Music OIBDA included the following amounts (in millions):

	For the Three Months Ended			
	June 30,		2017 vs. 2016	
	2017	2016	$ Change	% Change
Operating Income	$ 77	$ 64	$ 13	20 %
Depreciation and amortization	43	55	(12)	-22 %
OIBDA	$ 120	$ 119	$ 1	1 %

Recorded Music OIBDA increased by $1 million, or 1%, to $120 million for the three months ended June 30, 2017 from $119 million for the three months ended June 30, 2016 as a result of higher Recorded Music revenues partially offset by higher artist and repertoire costs and higher general and administrative expenses. Expressed as a percentage of Recorded Music revenue, Recorded Music OIBDA decreased to 16% for the three months ended June 30, 2017 from 18% for the three months ended June 30, 2016.

Recorded Music operating income increased by $13 million to $77 million for the three months ended June 30, 2017 from $64 million for the three months ended June 30, 2016 due to the factors that led to the increase in Recorded Music OIBDA noted above and a decrease in amortization expense due to intangible assets becoming fully amortized.

Music Publishing

Revenues

Music Publishing revenues increased by $16 million, or 12%, to $150 million for the three months ended June 30, 2017 from $134 million for the three months ended June 30, 2016. U.S. Music Publishing revenues were $66 million and $57 million, or 44% and 42%, of Music Publishing revenues for the three months ended June 30, 2017 and June 30, 2016, respectively. International Music Publishing revenues were $84 million and $77 million, or 56% and 58%, of Music Publishing revenues for the three months ended June 30, 2017 and June 30, 2016, respectively.

The overall increase in Music Publishing revenue was mainly driven by the increase in digital revenue as described in the “Total Revenues” and “Revenue by Geographical Location” sections above.

Cost of revenues

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

	For the Three Months Ended			
	June 30,		2017 vs. 2016	
	2017	2016	$ Change	% Change
Artist and repertoire costs	$ 112	$ 97	$ 15	15 %

Total cost of revenues	$ 112	$ 97	$15	15 %

Music Publishing cost of revenues increased by $15 million, or 15%, to $112 million for the three months ended June 30, 2017 from $97 million for the three months ended June 30, 2016. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues increased to 75% for the three months ended June 30, 2017 from 72% for the three months ended June 30, 2016, primarily due to a shift in revenue mix.

Selling, general and administrative expense

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

	For the Three Months Ended			
	June 30, 2017	2016	2017 vs. 2016 $ Change	% Change
General and administrative expense (1)	$ 16	$ 15	$ 1	7 %
Selling and marketing expense	—	—	—	— %
Total selling, general and administrative expense	$ 16	$ 15	$ 1	7 %

(1) Includes depreciation expense of $1 million for both the three months ended June 30, 2017 and June 30, 2016.

Music Publishing selling, general and administrative expense increased by $1 million, or 7%, to $16 million for the three months ended June 30, 2017 from $15 million for the three months ended June 30, 2016. General and administrative expense for the three months ended June 30, 2017 increased mainly due to a one-time gain on sale of asset in the prior year of $2 million. Expressed as a percentage of Music Publishing revenue, Music Publishing selling, general and administrative expense remained flat at 11% for the three months ended June 30, 2017 and the three months ended June 30, 2016.

Operating income and OIBDA

Music Publishing OIBDA included the following amounts (in millions):

	For the Three Months Ended			
	June 30, 2017	2016	2017 vs. 2016 $ Change	% Change
Operating income	$ 6	$ 6	$ —	—%
Depreciation and amortization	17	17	—	—%
OIBDA	$ 23	$ 23	$ —	—%

Music Publishing OIBDA remained flat at $23 million for both the three months ended June 30, 2017 and the three months ended June 30, 2016. Expressed as a percentage of Music Publishing revenue, Music Publishing OIBDA decreased to 15% for the three months ended June 30, 2017 from 17% for the three months ended June 30, 2016 due to increased artist and repertoire costs.

Music Publishing operating income remained flat at $6 million for both the three months ended June 30, 2017 and the three months ended June 30, 2016.

Corporate Expenses and Eliminations

Our operating loss from corporate expenses and eliminations increased by $7 million to $32 million for the three months ended June 30, 2017 from $25 million for the three months ended June 30, 2016 due to an increase in variable compensation expense of $4 million associated with improved operating performance and costs associated with our U.S. shared services relocation and other transformation initiatives totaling $3 million.

Our OIBDA loss from corporate expenses and eliminations increased by $6 million to $28 million for the three months ended June 30, 2017 from $22 million for the three months ended June 30, 2016 due to the factors that led to the increase in operating loss noted above.

RESULTS OF OPERATIONS

Nine Months Ended June 30, 2017 Compared with Nine Months Ended June 30, 2016

Consolidated Results

Revenues

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

	For the Nine Months Ended June 30,		2017 vs. 2016		
	2017	2016	$ Change	% Change	
Revenue by Type					
Digital	$1,250	$998	$252	25	%
Physical	532	577	(45)	-8	%
Total Digital and Physical	1,782	1,575	207	13	%
Artist services and expanded-rights	264	254	10	4	%
Licensing	207	209	(2)	-1	%
Total Recorded Music	2,253	2,038	215	11	%
Performance	139	138	1	1	%
Digital	136	94	42	45	%
Mechanical	51	56	(5)	-9	%
Synchronization	85	82	3	4	%
Other	8	7	1	14	%
Total Music Publishing	419	377	42	11	%
Intersegment eliminations	(13)	(10)	(3)	-30	%
Total Revenue	$2,659	$2,405	$254	11	%
Revenue by Geographical Location					
U.S. Recorded Music	$991	$828	$163	20	%
U.S. Music Publishing	193	164	29	18	%
Total U.S.	1,184	992	192	19	%
International Recorded Music	1,262	1,210	52	4	%
International Music Publishing	226	213	13	6	%
Total International	1,488	1,423	65	5	%
Intersegment eliminations	(13)	(10)	(3)	-30	%
Total Revenue	$2,659	$2,405	$254	11	%

Total Revenue

Total revenue increased by $254 million, or 11%, to $2,659 million for the nine months ended June 30, 2017 from $2,405 million for the nine months ended June 30, 2016. Excluding the unfavorable impact of foreign currency exchange rates, total revenue increased by $304 million, or 13%. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 84% and 16% of total revenue for both the nine months ended June 30, 2017 and June 30, 2016. Prior to intersegment eliminations, U.S. and international revenues represented 44% and 56% of total revenue for the nine months ended June 30, 2017 and 41% and 59% of total revenue for the nine months ended June 30, 2016, respectively.

Total digital revenue after intersegment eliminations increased by $290 million, or 27%, to $1,379 million for the nine months ended June 31, 2017 from $1,089 million for the nine months ended June 30, 2016. Excluding the unfavorable impact of foreign currency exchange rates, total digital revenue after intersegment eliminations increased by $309 million, or 29%. Total digital revenue represented 52% and 45% of consolidated revenue for the nine months ended June 30, 2017 and June 30, 2016, respectively. Prior to intersegment eliminations, total digital revenue for the nine months ended June 30, 2017 was comprised of U.S. revenue of $756 million and international revenue of $630 million, or 55% and 45% of total digital revenue, respectively. Prior to intersegment eliminations, total digital revenue for the nine months ended June 30, 2016 was comprised of U.S. revenue of $578 million and international revenue of $514 million, or 53% and 47% of total digital revenue, respectively.

Recorded Music revenue increased by $215 million, or 11%, to $2,253 million for the nine months ended June 30, 2017 from $2,038 million for the nine months ended June 30, 2016. Excluding the unfavorable impact of foreign currency exchange rates, Recorded Music revenue increased by $256 million, or 13%. U.S. Recorded Music revenues were $991 million and $828 million, or 44% and 41%, of consolidated Recorded Music revenues for the nine months ended June 30, 2017 and June 30, 2016, respectively. International Recorded Music revenues were $1,262 million and $1,210 million, or 56% and 59%, of consolidated Recorded Music revenues for the nine months ended June 30, 2017 and June 30, 2016, respectively.

The overall increase in Recorded Music revenue was mainly driven by increases in digital revenue and artist services and expanded-rights revenue, partially offset by decreases in physical revenue and licensing revenue. Digital revenue increased by $252 million as a result of strong new releases from Ed Sheeran and Bruno Mars, the continued successes from Twenty One Pilots, the Hamilton soundtrack and Ed Sheeran catalog and the continued growth in streaming services. Revenue from streaming services grew by $325 million to $971 million for the nine months ended June 30, 2017 from $646 million for the nine months ended June 30, 2016 and was partially offset by digital download and other digital declines of $73 million to $279 million for the nine months ended June 30, 2017 from $352 million for the nine months ended June 30, 2016. Artist services and expanded-rights revenue increased by $10 million primarily due to merchandise revenue and ticket sales generated from successful U.S. artists and the timing of concert promotion activity internationally. Physical revenue decreased by $45 million primarily due to the shift from physical revenue to digital revenue. Licensing revenue decreased by $2 million due to the unfavorable impact of foreign currency exchange rates of $8 million, partially offset by increased synchronization activity in the U.S.

Music Publishing revenues increased by $42 million, or 11%, to $419 million for the nine months ended June 30, 2017 from $377 million for the nine months ended June 30, 2016. Excluding the unfavorable impact of foreign currency exchange rates, Music Publishing revenue increased by $51 million, or 14%. U.S. Music Publishing revenues were $193 million and $164 million, or 46% and 43% of Music Publishing revenues for the nine months ended June 30, 2017 and June 30, 2016, respectively. International Music Publishing revenues were $226 million and $213 million, or 54% and 57%, of Music Publishing revenues for the nine months ended June 30, 2017 and June 30, 2016, respectively.

The overall increase in Music Publishing revenue was mainly driven by increases in digital revenue of $42 million, synchronization revenue of $3 million, partially offset by a decrease in mechanical revenue of $5 million. The increase in digital revenue was due to an increase in streaming revenue of $44 million due to the continued growth in streaming, partially offset by download and other digital declines of $2 million. The increase in synchronization revenue was due to increased film and commercial income in the U.S. The decrease in mechanical revenue was attributable to an ongoing industry shift towards digital product.

Revenue by Geographical Location

U.S. revenue increased by $192 million, or 19%, to $1,184 million for the nine months ended June 30, 2017 from $992 million for the nine months ended June 30, 2016. U.S. Recorded Music revenue increased by $163 million, or 20%. The primary driver was the increase in U.S. Recorded Music digital revenue, which increased by $152 million due to strong new releases from Ed Sheeran, and Bruno Mars, the continued successes of the Hamilton soundtrack and Twenty One Pilots and the continued growth in streaming services. U.S. Recorded Music artist services and expanded-rights revenue increased by $25 million primarily due to merchandise revenue and ticket sales generated from successful U.S. artists. U.S. recorded music licensing revenue increased by $6 million due to increased synchronization activity and higher broadcast fee income. These increases were partially offset by a decline in U.S. physical revenue of $20 million due to the shift from physical revenue to digital revenue and strong physically-centric releases and catalog sales in the prior year. U.S. Music Publishing revenue increased by $29 million, or 18%, to $193 million for the nine months ended June 30, 2017 from $164 million for the nine months ended June 30, 2016. This was primarily driven by the increase in U.S. Music Publishing digital revenue of $26 million due to increases in streaming revenue of $27 million due to the continued growth in streaming services, partially offset by download declines of $1 million.

International revenue increased by $65 million, or 5%, to $1,488 million for the nine months ended June 30, 2017 from $1,423 million for the nine months ended June 30, 2016. Excluding the unfavorable impact of foreign currency exchange rates, International revenue increased by $116 million or 9%. International Recorded Music revenue increased $52 million primarily due an increase in digital revenue of $100 million, partially offset by decreases in physical revenue of $25 million, artist services and expanded-rights revenue of $15 million and licensing revenue of $8 million. International Recorded Music digital revenue increased due to a $117 million increase in streaming revenue, partially offset by a $17 million decline in digital download and other digital revenue. The increase in International Recorded Music streaming revenue was due to the continued growth of streaming services internationally, new releases from Ed Sheeran and Bruno Mars and the continued successes from Ed Sheeran catalog. International physical revenue decreased due to the unfavorable impact of foreign currency exchange rates of $13 million, the continued shift from physical revenue to digital revenue and fewer domestic releases in certain territories. International artist services and expanded-rights revenue decreased due to the timing of concert promotion activity, specifically strong prior year concert promotion revenue in France and Japan, partially offset by strong tour schedule in Italy in the current year. International licensing revenue decreased due to the unfavorable impact of foreign currency exchange rates of $9 million. International Music Publishing revenue increased $13 million primarily due to an increase in digital revenue of $16 million, increase in performance revenue of $1 million and an increase in other revenue of $1 million, partially offset by a decrease in mechanical revenue of $5 million.

Cost of revenues

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

	For the Nine Months Ended June 30,		2017 vs. 2016	
	2017	2016	$ Change	% Change
Artist and repertoire costs	$973	$840	$133	16 %
Product costs	457	431	26	6 %
Total cost of revenues	$1,430	$1,271	$159	13 %

Total cost of revenues increased by $159 million to $1,430 million for the nine months ended June 30, 2017 from $1,271 million for the nine months ended June 30, 2016. Expressed as a percentage of revenues, cost of revenues increased to 54% for the nine months ended June 30, 2017 from 53% for the nine months ended June 30, 2016.

Artist and repertoire costs increased by $133 million, to $973 million for the nine months ended June 30, 2017 from $840 million for the nine months ended June 30, 2016. Artist and repertoire costs as a percentage of revenue increased to 37% for the nine months ended June 30, 2017 from 35% for the nine months ended June 30, 2016 due to the mix of revenue, specifically strong performance from lower margin repertoire and higher artist related costs.

Product costs increased by $26 million, to $457 million for the nine months ended June 30, 2017 from $431 million for the nine months ended June 30, 2016. Product costs as a percentage of revenue decreased to 17% for the nine months ended June 30, 2017 from 18% for the nine months ended June 30, 2016 due to the decline in concert promotion revenue, which tends to have higher costs and yield lower margins and the decrease in physical revenue.

Selling, general and administrative expenses

	For the Nine Months Ended June 30,		2017 vs. 2016	
	2017	2016	$ Change	% Change
General and administrative expense (1)	$468	$424	$44	10 %
Selling and marketing expense	339	319	20	6 %
Distribution expense	47	44	3	7 %
Total selling, general and administrative expense	$854	$787	$67	9 %

(1) Includes depreciation expense of $38 million and $37 million for the nine months ended June 30, 2017 and June 30, 2016, respectively.

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Total selling, general and administrative expense increased by $67 million to $854 million for the nine months ended June 30, 2017 from $787 million for the nine months ended June 30, 2016. Expressed as a percentage of revenue, selling, general and administrative expense decreased to 32% for the nine months ended June 30, 2017 from 33% for the nine months ended June 30, 2016.

General and administrative expense increased by $44 million, or 10%, to $468 million for the nine months ended June 30, 2017 from $424 million for the nine months ended June 30, 2016. The increase in general and administrative expense was mainly due to an increase in variable compensation expense of $41 million associated with improved operating performance. The current year included a $4 million net loss on divestitures compared to an $8 million net gain on divestitures in the prior year. The prior year also included costs related to the Happy Birthday settlement and higher severance expense of $3 million. Expressed as a percentage of revenue, general and administrative expense remained flat at 18% for the nine months ended June 30, 2017 and June 30, 2016.

Selling and marketing expense increased by $20 million, or 6%, to $339 million for the nine months ended June 30, 2017 from $319 million for the nine months ended June 30, 2016. The increase in selling and marketing expense was primarily due to increased variable marketing expense on higher revenue. Expressed as a percentage of revenue, selling and marketing expense remained flat at 13% for both the nine months ended June 30, 2017 and June 30, 2016.

Distribution expense increased by $3 million, or 7%, to $47 million for the nine months ended June 30, 2017 from $44 million for the nine months ended June 30, 2017. Expressed as a percentage of revenue, distribution expense remained flat at 2% for the nine months ended June 30, 2017 and June 30, 2016.

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

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

	For the Nine Months Ended June 30,		2017 vs. 2016	
	2017	2016	$ Change	% Change
Net income attributable to Warner Music Group Corp.	$182	$29	$153	— %
Income attributable to noncontrolling interest	5	4	1	25 %
Net income	187	33	154	— %
Income tax (benefit) expense	(132)	16	(148)	— %
Income before income taxes	55	49	6	12 %
Other expense (income), net	21	(25)	46	— %
Interest expense, net	112	131	(19)	-15 %
Loss on extinguishment of debt	35	4	31	— %
Operating income	223	159	64	40 %
Amortization expense	152	188	(36)	-19 %
Depreciation expense	38	37	1	3 %
OIBDA	$413	$384	$29	8 %

OIBDA

OIBDA increased by $29 million, or 8%, to $413 million for the nine months ended June 30, 2017 as compared to $384 million for the nine months ended June 30, 2016 as a result of higher Recorded Music and Music Publishing revenues. Expressed as a percentage of total revenue, OIBDA remained flat at 16% for the nine months ended June 30, 2017 and June 30, 2016.

Depreciation expense

Our depreciation expense increased by $1 million, or 3%, to $38 million for the nine months ended June 30, 2017 from $37 million for the nine months ended June 30, 2016.

Amortization expense

Our amortization expense decreased by $36 million, or 19%, to $152 million for the nine months ended June 30, 2017 from $188 million for the nine months ended June 30, 2016, primarily due to intangible assets becoming fully amortized and the impact of foreign currency exchange rates.

Operating income

Our operating income increased by $64 million to $223 million for the nine months ended June 30, 2017 from $159 million for the nine months ended June 30, 2016. The increase in operating income was due to the factors that led to the increase in OIBDA and lower amortization expense, as noted above.

Loss on extinguishment of debt

We recorded a loss on extinguishment of debt in the amount of $35 million for the nine months ended June 30, 2017 as compared to a loss on extinguishment of debt of $4 million for the nine months ended June 30, 2016. In the current year we recorded a loss related to the October 2016 Refinancing Transactions and 5.625% Senior Secured Notes redemption of $32 million and a loss related to the May 2017 Senior Term Loan Credit Agreement Amendment of $3 million. See Note 5 of our Consolidated Financial Statements for further discussion.

Interest expense, net

Our interest expense, net, decreased by $19 million, or 15%, to $112 million for the nine months ended June 30, 2017 from $131 million for the nine months ended June 30, 2016 due to the reduction in our debt and lower interest rates as a result of the October 2016 Refinancing Transactions and refinancing transactions that occurred in the fiscal year ended September 30, 2016.

Other expense (income), net

Other expense (income), net for the year includes a loss on our Euro denominated debt and derivative liabilities of $13 million and a $12 million loss on investments, compared to other income in the prior year due to a gain on the sale of real estate of $24 million and currency exchange gains on our Euro denominated debt of $2 million, partially offset by loss on intercompany loans of $4 million.

Income tax (benefit) expense

We recognized an income tax benefit of $132 million for the nine months ended June 30, 2017 as compared to an income tax expense of $16 million for the nine months ended June 30, 2016. The change of $148 million in the income tax benefit primarily relates to a discrete U.S. tax benefit of $128 million for the reversal of a significant portion of our U.S. deferred tax asset valuation allowance, a discrete U.S. tax benefit of $60 million related to foreign currency losses on intra-entity loans, offset by $27 million of U.S. income tax expense for the nine months ended June 30, 2017, as compared to the nine months ended June 30, 2016 where no U.S. income tax expense was recorded. As a reliable estimate of the annual effective tax rate could not be made, our income tax expense for the nine months ended June 30, 2016 was calculated based on a discrete tax rate.

Net Income

Net income increased by $154 million to $187 million for the nine months ended June 30, 2017 from $33 million for the nine months ended June 30, 2016 as a result of the factors described above.

Noncontrolling interest

Income attributable to noncontrolling interest was $5 million for the nine months ended June 30, 2017 and $4 million for the nine months ended June 30, 2016.

Business Segment Results

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

	For the Nine Months Ended June 30, 2017	2016	2017 vs. 2016 $ Change	% Change
Recorded Music				
Revenue	$2,253	$2,038	$215	11 %
Operating income	269	200	69	35 %
OIBDA	397	364	33	9 %
Music Publishing				
Revenue	419	377	42	11 %
Operating income	45	30	15	50 %
OIBDA	97	82	15	18 %
Corporate expenses and eliminations				
Revenue elimination	(13)	(10)	(3)	30 %
Operating loss	(91)	(71)	(20)	28 %
OIBDA loss	(81)	(62)	(19)	31 %
Total				
Revenue	2,659	2,405	254	11 %
Operating income	223	159	64	40 %
OIBDA	413	384	29	8 %

Recorded Music

Revenues

Recorded Music revenue increased by $215 million, or 11%, to $2,253 million for the nine months ended June 30, 2017 from $2,038 million for the nine months ended June 30, 2016. U.S. Recorded Music revenues were $991 million and $828 million, or 44% and 41%, of consolidated Recorded Music revenues for the nine months ended June 30, 2017 and June 30, 2016, respectively. International Recorded Music revenues were $1,262 million and $1,210 million, or 56% and 59% of consolidated Recorded Music revenues for the nine months ended June 30, 2017 and June 30, 2016, respectively.

The overall increase in Recorded Music revenue was mainly driven by strong releases and streaming revenue growth as described in the “Total Revenues” and “Revenue by Geographical Location” sections above.

Cost of revenues

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

	For the Nine Months Ended June 30,		2017 vs. 2016	
	2017	2016	$ Change	% Change
Artist and repertoire costs	$710	$609	$101	17 %
Product costs	457	431	26	6 %
Total cost of revenues	$1,167	$1,040	$127	12 %

Recorded Music cost of revenues increased by $127 million, or 12%, to $1,167 million for the nine months ended June 30, 2017 from $1,040 million for the nine months ended June 30, 2016. Artist and repertoire costs as a percentage of revenue increased to 32% for the nine months ended June 30, 2017 from 30% for the nine months ended June 30, 2016 due to revenue mix, specifically strong performance from lower margin repertoire and higher artist related costs. Product costs as a percentage of revenue decreased to 20% for the nine months ended June 30, 2017 from 21% for the nine months ended June 30, 2016 due to the decline in concert promotion revenue, which tends to have higher costs and yield lower margins. Expressed as a percentage of Recorded Music revenue, Recorded Music cost of revenues increased to 52% for the nine months ended June 30, 2017 from 51% for the nine months ended June 30, 2016.

Selling, general and administrative expense

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

	For the Nine Months Ended June 30,		2017 vs. 2016	
	2017	2016	$ Change	% Change
General and administrative expense (1)	$332	$299	$33	11 %
Selling and marketing expense	334	315	19	6 %
Distribution expense	47	44	3	7 %
Total selling, general and administrative expense	$713	$658	$55	8 %

(1) Includes depreciation expense of $24 million for both the nine months ended June 30, 2017 and June 30, 2016.

Recorded Music selling, general and administrative expense increased by $55 million, or 8%, to $713 million for the nine months ended June 30, 2017 from $658 million for the nine months ended June 30, 2016. The increase in Recorded Music selling, general and administrative expense was primarily due to an increase in variable compensation expense of $26 million associated with improved operating performance and an increase in variable marketing expense and a net loss on divestitures of $4 million compared to a net gain on divestitures of $6 million in the prior year period. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense remained flat at 32% for both the nine months ended June 30, 2017 and June 30, 2016.

Operating income and OIBDA

Recorded Music OIBDA included the following amounts (in millions):

	For the Nine Months Ended June 30,		2017 vs. 2016	
	2017	2016	$ Change	% Change
Operating Income	$269	$200	$69	35 %
Depreciation and amortization	128	164	(36)	-22 %
OIBDA	$397	$364	$33	9 %

Recorded Music OIBDA increased by $33 million, or 9%, to $397 million for the nine months ended June 30, 2017 from $364 million for the nine months ended June 30, 2016 as a result of higher Recorded Music revenues, partially offset by increased artist and repertoire costs. Expressed as a percentage of Recorded Music revenue, Recorded Music OIBDA remained flat at 18% for both the nine months ended June 30, 2017 and June 30, 2016.

Recorded Music operating income increased by $69 million to $269 million for the nine months ended June 30, 2017 from $200 million for the nine months ended June 30, 2016 due to the factors that led to the increase in Recorded Music OIBDA noted above and a decrease in amortization expense due to intangible assets becoming fully amortized.

Music Publishing

Revenues

Music Publishing revenues increased by $42 million, or 11%, to $419 million for the nine months ended June 30, 2017 from $377 million for the nine months ended June 30, 2016. U.S. Music Publishing revenues were $193 million and $164 million, or 46% and 43%, of Music Publishing revenues for the nine months ended June 30, 2017 and June 30, 2016, respectively. International Music Publishing revenues were $226 million and $213 million, or 54% and 57%, of Music Publishing revenues for the nine months ended June 30, 2017 and June 30, 2016, respectively.

The overall increase in Music Publishing revenue was mainly driven by the increase in digital revenue as described in the “Total Revenues” and “Revenue by Geographical Location” sections above.

Cost of revenues

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

	For the Nine Months Ended June 30,		2017 vs. 2016	
	2017	2016	$ Change	% Change
Artist and repertoire costs	$276	$241	$35	15 %
Total cost of revenues	$276	$241	$35	15 %

Music Publishing cost of revenues increased by $35 million, or 15%, to $276 million for the nine months ended June 30, 2017 from $241 million for the nine months ended June 30, 2016. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues increased to 66% for the nine months ended June 30, 2017 from 64% for the nine months ended June 30, 2016, primarily due to revenue mix.

Selling, general and administrative expense

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

	For the Nine Months Ended June 30,		2017 vs. 2016	
	2017	2016	$ Change	% Change
General and administrative expense (1)	$49	$ 57	$(8)	-14 %
Selling and marketing expense	1	1	—	— %
Total selling, general and administrative expense	$50	$ 58	$(8)	-14 %

(1) Includes depreciation expense of $4 million for both the nine months ended June 30, 2017 and June 30, 2016.

Music Publishing selling, general and administrative expense decreased by $8 million, or 14%, to $50 million for the nine months ended June 30, 2017 from $58 million for the nine months ended June 30, 2016. General and administrative expense for the nine months ended June 30, 2017 decreased due to costs related to the Happy Birthday settlement and higher severance charges taken in the prior year. Expressed as a percentage of Music Publishing revenue, Music Publishing selling, general and administrative expense decreased to 12% for the nine months ended June 30, 2017 from 15% for the nine months ended June 30, 2016.

Operating income and OIBDA

Music Publishing OIBDA included the following amounts (in millions):

	For the Nine Months Ended June 30,		2017 vs. 2016		
	2017	2016	$ Change	% Change	
Operating income	$45	$ 30	$15	50	%
Depreciation and amortization	52	52	—	—	%
OIBDA	$97	$ 82	$15	18	%

Music Publishing OIBDA increased by $15 million to $97 million for the nine months ended June 30, 2017 from $82 million for the nine months ended June 30, 2016 as a result of higher Music Publishing revenue and lower general and administrative expense offset by higher artist and repertoire costs, as noted above. Expressed as a percentage of Music Publishing revenue, Music Publishing OIBDA increased to 23% for the nine months ended June 30, 2017 from 22% for the nine months ended June 30, 2016.

Music Publishing operating income increased by $15 million to $45 million for the nine months ended June 30, 2017 from $30 million for the nine months ended June 30, 2016 due to the factors that led to the increase in Music Publishing OIBDA noted above.

Corporate Expenses and Eliminations

Our operating loss from corporate expenses and eliminations increased by $20 million to $91 million for the nine months ended June 30, 2017 from $71 million for the nine months ended June 30, 2016 due mainly to an increase in variable compensation expense of $14 million associated with improved operating performance and costs associated with our U.S. shared services relocation and other transformation initiatives totaling $7 million.

Our OIBDA loss from corporate expenses and eliminations increased by $19 million to $81 million for the nine months ended June 30, 2017 from $62 million for the nine months ended June 30, 2016 due to the factors that led to the increase in operating loss noted above.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition at June 30, 2017

At June 30, 2017, we had $2.797 billion of debt (which is net of $31 million of deferred financing costs), $567 million of cash and equivalents (net debt of $2.230 billion, defined as total long-term debt, less cash and equivalents and deferred financing costs) and $308 million of Warner Music Group Corp. equity. This compares to $2.778 billion of debt (which is net of $34 million of deferred financing costs), $359 million of cash and equivalents (net debt of $2.419 billion) and $195 million of Warner Music Group Corp. equity at September 30, 2016.

Cash Flows

The following table summarizes our historical cash flows. The financial data for the nine months ended June 30, 2017 and June 30, 2016 are unaudited and are derived from our interim financial statements included elsewhere herein. The cash flow is composed of the following (in millions):

	For the Nine Months Ended June 30,	
	2017	2016
Cash provided by (used in):		
Operating Activities	$309	$207
Investing Activities	(6)	1
Financing Activities	(97)	(105)

Operating Activities

Cash provided by operating activities was $309 million for the nine months ended June 30, 2017 as compared with cash provided by operating activities of $207 million for the nine months ended June 30, 2016. The primary drivers of the $102 million increase in cash provided by operating activities was an increase in comparative OIBDA of $29 million and the benefit of changes in working capital from operations, including the timing of royalty advances and royalty payables and increased non-cash share-based compensation expense of $17 million, offset by the timing of collections.

Investing Activities

Cash used in investing activities was $6 million for the nine months ended June 30, 2017 as compared with cash provided by investing activities of $1 million for the nine months ended June 30, 2016. The $6 million of cash used in investing activities in the nine months ended June 30, 2017 consisted of $9 million of business investments and acquisitions, $11 million to acquire music publishing rights and $29 million of capital expenditures, partially offset by $43 million proceeds from divestitures. The $1 million of cash provided by investing activities for the nine months ended June 30, 2016 consisted of $42 million of proceeds from the sale of real estate and $27 million proceeds from divestitures, partially offset by $23 million of business investments and acquisitions, $14 million to acquire music publishing rights, and $31 million of capital expenditures.

Financing Activities

Cash used in financing activities was $97 million for the nine months ended June 30, 2017 compared to $105 million for the nine months ended June 30, 2016. The $97 million of cash used in financing activities for the nine months ended June 30, 2017 consisted of the repayment of Acquisition Corp.'s 6.00% Senior Secured Notes of $450 million, repayment of Acquisition Corp.'s 6.25% Senior Secured Notes of $173 million, repayment of Acquisition Corp.'s 5.625% Senior Secured Notes of $28 million, call premiums paid on early redemption of $27 million, deferred financing costs paid of $13 million, special cash dividends paid of $54 million, and a distribution to our non-controlling interest holders of $4 million, partially offset by proceeds from issuance of Acquisition Corp.'s 4.125% Senior Secured Notes of €345 million, proceeds from issuance of Acquisition Corp.'s 4.875% Senior Secured Notes of $250 million and proceeds from the amendment of Acquisition Corp.'s Senior Term Loan Facility of $22 million. The $105 million of cash used in financing activities for the nine months ended June 30, 2016 consisted of the repayment of $50 million of Holdings 13.75% Senior Notes, $3 million of call premiums on early redemptions of debt, open market repurchase of $24 million of Acquisition Corp. 6.75% Senior Notes, $10 million in amortization payments on the Senior Term Loan Facility, $14 million repayment of capital lease obligations and a $4 million distribution to our non-controlling interest holders.

There were no drawdowns on the Revolving Credit Facility during the nine months ended June 30, 2017 or the nine months ended June 30, 2016.

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, and any dividends, prepayments of debt or repurchases or retirement of our outstanding debt or 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 twelve months.

Existing Debt as of June 30, 2017

As of June 30, 2017, our long-term debt was as follows (in millions):

Revolving Credit Facility—Acquisition Corp. (a)	$—
Senior Term Loan Facility due 2023—Acquisition Corp. (b)	989
5.625% Senior Secured Notes due 2022—Acquisition Corp. (c)	246
5.00% Senior Secured Notes due 2023—Acquisition Corp. (d)	297
4.125% Senior Secured Notes due 2024— Acquisition Corp. (e)	389
4.875% Senior Secured Notes due 2024— Acquisition Corp. (f)	246
6.75% Senior Notes due 2022—Acquisition Corp. (g)	630
Total debt (h)	$2,797

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

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

(c) Principal amount of $248 million less unamortized deferred financing costs of $2 million at June 30, 2017.

(d) Principal amount of $300 million less unamortized deferred financing costs of $3 million at June 30, 2017.

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

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

(g) Principal amount of $635 million less unamortized deferred financing costs of $5 million at June 30, 2017.

(h) Principal amount of debt of $2.834 billion less unamortized discount of $6 million and unamortized deferred financing costs of $31 million at June 30, 2017.

For further discussion of our debt agreements, see “Liquidity” in the “Financial Condition and Liquidity” section of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016.

Covenant Compliance

The Company was in compliance with its covenants under its outstanding notes, Revolving Credit Facility and Senior Term Loan Facility as of June 30, 2017.

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 may depend upon our ability to meet the leverage ratio test at the end of a fiscal quarter to the extent we have drawn a certain amount of revolving loans. 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); (6) transaction expenses and (7) equity-based compensation expense. It also includes an adjustment for the pro forma impact of certain projected cost-savings and synergies. The indentures governing our notes and our Senior Term Loan 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 income, which is a U.S. GAAP measure of our operating results, to Consolidated EBITDA as defined, and the calculation of the Senior Secured 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 June 30, 2017. 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 ratio):

	Twelve Months Ended June 30, 2017
Net Income	$ 194
Income tax expense	(137)
Interest expense, net	154
Depreciation and amortization	258
Loss on extinguishment of debt (a)	39
Net loss on divestitures (b)	5
Restructuring costs (c)	7
Net hedging gains and foreign exchange losses (d)	18
Management fees (e)	9
Transaction costs (f)	2
Business optimization expenses (g)	10
Equity based compensation expense (h)	38
Other non-cash charges (i)	5
Pro forma impact of certain transactions (j)	9
Pro Forma Consolidated EBITDA	$ 611
Senior Secured Indebtedness (k)	$ 2,048
Leverage Ratio (l)	3.35x

(a) Reflects net loss incurred on the early extinguishment of our debt incurred as part of the July 2016 debt redemption and the October 2016 refinancing transaction and November Amendment and redemption.
(b) Reflects net loss on divestitures.
(c) Reflects severance costs and other restructuring related expenses.
(d) Reflects net gains from hedging activities and unrealized losses due to foreign exchange.
(e) Reflects management fees paid to Access, including an annual fee and related expenses. Pursuant to the Company's and Holdings' management agreement with Access, the base amount of the annual fee is approximately $9 million, subject to certain potential upward adjustments.
(f) Reflects mainly integration and other nonrecurring costs.
(g) Reflects primarily costs associated with IT systems updates and U.S. shared services relocation.
(h) Reflects equity based compensation expense related to the Warner Music Group Corp. Senior Management Free Cash Flow Plan.
(i) Reflects cash payments related to previous non-cash charges, offset by a non-cash loss on investment.
(j) Reflects expected savings resulting from our U.S. shared services relocation and other transformation initiatives.
(k)

Reflects the principal balance of senior secured debt at Acquisition Corp. of approximately $2.198 billion less cash of $150 million.

(l) Reflects the ratio of Senior Secured Indebtedness, including Revolving Credit Agreement Indebtedness, to Pro Forma Consolidated EBITDA as of the twelve months ended June 30, 2017. This is calculated net of cash and equivalents of the Company as of June 30, 2017 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 is 4.625:1.00. 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 or equal to $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 and available cash and equivalents 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, the continued transition from physical to digital sales and continued growth in digital sales in the recorded music and music publishing businesses. We or any of our affiliates continue to evaluate opportunities to, 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 or retire Acquisition Corp.'s outstanding debt or debt securities in open market purchases, privately negotiated purchases or otherwise. The amounts involved in any such transactions, individually or in the aggregate, may be material and may be funded from available cash or from additional borrowings. In addition, we may from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to refinance our Senior Credit Facilities or our outstanding debt or debt securities with available cash and/or with funds provided from additional borrowings.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As discussed in Note 13 to our audited Consolidated Financial Statements for the fiscal year ended September 30, 2016, 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 June 30, 2017, other than as described below, there have been no material changes to the Company's exposure to market risk since September 30, 2016.

Foreign Currency Risk

Within our global business operations we have transactional exposures that may be adversely affected by changes in foreign currency exchange rates relative to the U.S. dollar. We may at times choose to use foreign exchange currency derivatives, primarily forward contracts, to manage the risk associated with the volatility of future cash flows denominated in foreign currencies, such as unremitted or future royalties and license fees owed to our U.S. domestic companies for the sale, or anticipated sale, of U.S.-copyrighted products sold abroad, that 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 major currencies, which can include the British Pound, Euro, Japanese Yen, Canadian Dollar, Swedish Krona and Australian Dollar, and in many cases we have natural hedges where we have expenses associated with local operations that offset the revenue in local currency and our Euro-denominated debt, which can offset declines in the Euro. As of June 30, 2017, the Company had outstanding hedge contracts for the sale of $137 million and the purchase of $78 million of foreign currencies at fixed rates. Subsequent to June 30, 2017, certain of our foreign exchange contracts expired.

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 June 30, 2017, 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 $6 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 $2.834 billion of principal debt outstanding at June 30, 2017, of which $1.006 billion was variable rate debt and $1.828 billion was fixed rate debt. As such, we are exposed to changes in interest rates. At June 30, 2017, 65% of the Company's debt was at a fixed rate. In addition, as of June 30, 2017, we have the option under all of our floating rate debt under our Senior Term Loan Facility to select a one, two, three or six month LIBOR rate.

Based on the level of interest rates prevailing at June 30, 2017, the fair value of the fixed rate and variable rate debt was approximately $2.917 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 the fair value of the fixed rate debt by approximately $10 million or increase the fair value of the fixed rate debt by approximately $8 million. 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.

Our variable-rate debt is subject to variable interest rates. A 25 basis point increase in current interest rates will not have a material impact on our annual interest expense. The Revolving Credit Facility is subject to variable interest rates but is assumed to be undrawn for purposes of this calculation. Our Revolving Credit Facility remained undrawn as of the date of filing of this quarterly report on Form 10-Q.

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ITEM 4. CONTROLS AND PROCEDURES
Certification

The certifications of the principal executive officer and the principal financial officer (or persons performing similar functions) required by Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended (the "Certifications") are filed as exhibits to this report. This section of the report contains the information concerning the evaluation of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) ("Disclosure Controls") and changes to internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) ("Internal Controls") referred to in the Certifications and this information should be read in conjunction with the Certifications for a more complete understanding of the topics presented.

Introduction

The Securities and Exchange Commission's rules define "disclosure controls and procedures" as controls and procedures that are designed to ensure that information required to be disclosed by public companies in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by public companies in the reports that they file or submit under the Exchange Act is accumulated and communicated to a company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Securities and Exchange Commission's rules define "internal control over financial reporting" as a process designed by, or under the supervision of, a public company's principal executive and principal financial officers, or persons performing similar functions, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, or U.S. GAAP, including those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our management, including the principal executive officer and principal financial officer, does not expect that our Disclosure Controls or Internal Controls will prevent or detect all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the limitations in any and all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our company have been detected. Further, the design of any control system is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected even when effective Disclosure Controls and Internal Controls are in place.

Evaluation of Disclosure Controls and Procedures

Based on our management's evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our Disclosure Controls are effective to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act will be recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, including that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our Internal Controls over financial reporting or other factors during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our Internal Controls.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS
Pricing of Digital Music Downloads

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

Upon remand to the District Court, all defendants, including the Company, filed a renewed motion to dismiss challenging, among other things, plaintiffs' state law claims and standing to bring certain claims. The renewed motion was based mainly on arguments made in defendants' original motion to dismiss, but not addressed by the District Court. On July 18, 2011, the District Court granted defendants' motion in part, and denied it in part. Notably, all claims on behalf of the CD-purchaser class were dismissed with prejudice. However, a wide variety of state and federal claims remain for the class of Internet download purchasers. On March 19, 2014, plaintiffs filed a motion for class certification. Plaintiffs filed an operative consolidated amended complaint on September 25, 2015. The Company filed its answer to the fourth amended complaint on October 9, 2015, and filed an amended answer on November 3, 2015. A mediation took place on February 22, 2016, but the parties were unable to reach a resolution. On July 12, 2017, the District Court denied plaintiffs' motion for class certification. On August 1, 2017, plaintiffs filed a petition with the Second Circuit seeking permission to appeal the district court's order denying class certification. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Regardless of the merits of the claims, this and any related litigation could continue to be costly, and divert the time and resources of management. The potential outcomes of these claims that are reasonably possible cannot be determined at this time and an estimate of the reasonably possible loss or range of loss cannot presently be made.

Other Matters

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

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Quarterly Report on Form 10-Q, certain risk factors should be considered carefully in evaluating our business. A wide range of risks may affect our business and financial results, now and in the future. We consider the risks described in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the fiscal year ended September 30, 2016, to be the most significant. There may be other currently unknown or unpredictable economic, business, competitive, regulatory or other factors that could have material adverse effects on our future results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES
Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES
Not applicable.

ITEM 5. OTHER INFORMATION
Not applicable.

ITEM 6. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES
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.

Exhibit Number	Description
10.1*	Third Incremental Commitment Amendment, dated as of May 22, 2017, among WMG Acquisition Corp., the other Loan Parties (as defined therein) parties hereto, WMG Holdings Corp., the Administrative Agent (as defined therein) and Credit Suisse AG, Cayman Islands Branch, as Tranche D Term Lender
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-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 Quarterly Report on Form 10-Q of Warner Music Group Corp. for the quarter ended June 30, 2017, filed on August 8, 2017, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statement of Comprehensive Loss, (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Equity and (vi) Notes to Consolidated Interim Financial Statements

* Filed herewith

** Pursuant to SEC Release No. 33-8212, this certification will be treated as "accompanying" this Quarterly Report on Form 10-Q and not "filed" as part of such report for purposes of Section 18 of the Securities Exchange Act, as amended, or otherwise subject 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

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

August 8, 2017

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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