Warner Music Group Corp.
Form 10-K
December 12, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2013

OR

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

Commission File Number 001-32502

Warner Music Group Corp.

(Exact name of Registrant as specified in its charter)

Delaware	**13-4271875**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
75 Rockefeller Plaza	**10019**

New York, NY	
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (212) 275-2000

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

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

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

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

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

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

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

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

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

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

There is no public market for the Registrant s common stock. As of December 12, 2013 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.

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WARNER MUSIC GROUP CORP.

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ITEM 1. BUSINESS

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are based on current expectations, estimates, forecasts and projections about the industry in which we operate, management s beliefs and assumptions made by management. Words such as may, will, expect, intend, estimate, anticipate, believe, or continue or the negative thereof or variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions, which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. We disclaim any duty to update or revise any forward-looking statements whether as a result of new information, future events or otherwise. See Management s Discussion and Analysis of Financial Condition and Results of Operations Safe Harbor Statement Under Private Securities Litigation Reform Act of 1995.

Introduction

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

Acquisition of Warner Music Group by Access Industries

Pursuant to the Agreement and Plan of Merger, dated as of May 6, 2011 (the Merger Agreement), by and among the Company, AI Entertainment Holdings LLC (formerly Airplanes Music LLC), a Delaware limited liability company (Parent) and an affiliate of Access Industries, Inc. (Access), and Airplanes Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent (Merger Sub), on July 20, 2011 (the Merger Closing Date), Merger Sub merged with and into the Company with the Company surviving as a wholly owned subsidiary of Parent (the Merger).

On July 20, 2011, in connection with the Merger, each outstanding share of common stock of the Company (other than any shares owned by the Company or its wholly owned subsidiaries, or by Parent and its affiliates, or by any stockholders who were entitled to and who properly exercised appraisal rights under Delaware law, and shares of unvested restricted stock granted under the Company s equity plan) was cancelled and converted automatically into the right to receive $8.25 in cash, without interest and less applicable withholding taxes (collectively, the Merger Consideration). All unvested restricted stock and shares of common stock of the Company owned by Parent and its affiliates were forfeited immediately prior to the Merger.

On July 20, 2011, we notified the New York Stock Exchange, Inc. (the NYSE) of our intent to remove our common stock from listing on the NYSE and requested that the NYSE file with the SEC an application on Form 25 to report the delisting of our common stock from the NYSE. On July 21, 2011, in accordance with our request, the NYSE filed the Form 25 with the SEC in order to provide notification of such delisting and to effect the deregistration of our common stock under Section 12(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act). On August 2, 2011, we filed a Form 15 with the SEC in order to provide notification of a suspension of our duty to file reports under Section 15(d) of the Exchange Act. Following such suspension, we continued to file reports with the SEC pursuant to the Exchange Act in accordance with certain covenants contained in the instruments governing our outstanding indebtedness. Additionally, we filed two exchange offer registration statements with the SEC in connection with the registration of our 11.50% Senior Unsecured Notes due 2018 issued by Acquisition Corp. (the Unsecured WMG Notes) and our 13.75% Senior Notes due 2019 issued by Holdings (the Holdings Notes) and the related guarantees by the Company, both of which became

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effective on March 16, 2012. As a result, our obligations to file reports pursuant to Section 15(d) of the Exchange Act were reinstated until the end of our fiscal year ended September 30, 2012 and we have subsequently continued to file Exchange Act reports with the SEC in accordance with certain covenants contained in the instruments covering our outstanding indebtedness. We have included condensed consolidating financial information as a condition to omitting separate financial statements for Acquisition Corp. and Holdings under Section 15(d) of the Exchange Act as permitted by Rule 3-10 of Regulation S-X.

In accordance with United States Generally Accepted Accounting Principles (GAAP), we have separated our historical financial results for the period from July 20, 2011 to September 30, 2011 (Successor) and for the period from October 1, 2010 to July 19, 2011 (Predecessor). In addition, all subsequent periods are also referred to as Successor. Successor periods and the Predecessor periods are presented on different bases and are, therefore, not comparable. However, we have also combined results for the Successor and Predecessor periods for 2011 in the presentations below (and presented as the results for the twelve months ended September 30, 2011) because, although such presentation is not in accordance with GAAP, we believe that it enables a meaningful comparison of results. The results for the twelve months ended September 30, 2011 have not been prepared on a pro forma basis under applicable regulations and may not reflect the actual results we would have achieved absent the Merger and the transactions related to the Merger and may not be predictive of future results of operations.

PLG Acquisition

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

Debt Refinancing and PLG Financing

On November 1, 2012, the Company completed a refinancing (the 2012 Refinancing) of its then outstanding senior secured notes due 2016. In connection with the 2012 Refinancing, the Company issued new senior secured notes consisting of $500 million aggregate principal amount of Senior Secured Notes due 2021 and 175 million aggregate principal amount of Senior Secured Notes due 2021 (the New Secured Notes) and entered into new senior secured credit facilities consisting of a $600 million term loan facility (the Term Loan Facility) and a $150 million revolving credit facility (the Revolving Credit Facility and, together with Term Loan Facility, the New Senior Credit Facilities).

On May 9, 2013, Acquisition Corp. entered into an amendment to the Term Loan Facility (the Term Loan Credit Agreement Amendment), providing for a $820 million delayed draw senior secured term loan facility (the Incremental Term Loan Facility). On July 1, 2013, Acquisition Corp. drew down the $820 million Incremental Term Loan Facility to fund the acquisition of PLG, pay fees, costs and expenses related to the acquisition and for general corporate purposes of Acquisition Corp. and its subsidiaries.

See Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition and Liquidity and Note 9 of the Notes to Consolidated Financial Statements for a further discussion of the 2012 Refinancing and the Term Loan Credit Agreement Amendment.

Our Company

We are one of the world s major music-based content companies. Our company is composed of two businesses: Recorded Music and Music Publishing. We believe we are the world s third-largest recorded music company and also the world s third-largest music publishing company. We are a global company, generating over half of our revenues in more than 50 countries outside of the U.S. We generated revenues of $2.871 billion during the fiscal year ended September 30, 2013.

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Our Recorded Music business produces revenue primarily through the marketing, sale and licensing of recorded music in various physical (such as CDs, LPs and DVDs) and digital (such as downloads, subscription and streaming) formats. We have one of the world s largest and most diverse recorded music catalogs, including 30 of the top 100 best-selling albums of all time in the U.S. Our Recorded Music business also benefits from additional revenue streams associated with artists, including merchandising, fanclubs, sponsorships, concert promotions and artist management, among other areas. We often refer to these rights as artist services and expanded-rights and to the recording agreements which provide us with participations in such rights as expanded-rights deals or 360° deals. Prior to intersegment eliminations, our Recorded Music business generated revenues of $2.389 billion during the fiscal year ended September 30, 2013.

Our Music Publishing business owns and acquires rights to musical compositions, exploits and markets these compositions and receives royalties or fees for their use. We publish music across a broad range of musical styles and hold rights in over one million copyrights from over 65,000 songwriters and composers. Prior to intersegment eliminations, our Music Publishing business generated revenues of $503 million during the fiscal year ended September 30, 2013.

Company History

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

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

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

On July 1, 2013, we completed the acquisition of PLG from Universal Music Group for £487 million subject to a closing working capital adjustment. PLG includes a broad range of some of the world s best-known recordings and classic and contemporary artists spanning a wide array of musical genres. PLG is comprised of the historic Parlophone label and Chrysalis and Ensign labels in the UK, as well as EMI Classics and Virgin Classics, and EMI s recorded music operations in Belgium, Czech Republic, Denmark, France, Norway, Poland, Portugal, Slovakia, Spain and Sweden. PLG s artists include Air, Alain Souchon, Camille, Coldplay, Daft Punk, Danger Mouse, David Bowie, David Guetta, Deep Purple, Duran Duran, Eliza Doolittle, Gorillaz, Iron Maiden, Jean-Louis Aubert, Jethro Tull, Julien Clerc, Kylie Minogie, M. Pokora, Magic System, Pablo Alboran, Pink Floyd, Radiohead, Roxette, Tina Turner and Tinie Tempah, as well as many developing and up-and-coming artists. PLG s EMI Classics and Virgin Classics brand names were not included with the Acquisition. WMG has rebranded these businesses, respectively, as Warner Classics and Erato following the Acquisition.

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

Our Business Strengths

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

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

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

Flexible Cost Structure with Low Capital Expenditure Requirements. We have a highly variable cost structure, with substantial discretionary spending and minimal capital requirements beyond improving our IT infrastructure. We have contractual flexibility with regard to the timing and amounts of advances paid to recording artists and songwriters as well as discretion regarding future investment in new recording artists and songwriters, which allows us to respond to changing industry conditions. Our significant discretion with regard to the timing and expenditure of variable costs provides us with considerable flexibility in managing our expenses. In addition, our capital maintenance expenditure requirements are predictable. Recently we have made investments to improve our systems and technology platform to enable us to be more agile, innovative and artist-friendly. We had an increased level of capital expenditures in fiscal years 2011 and 2012 as a result of several planned IT infrastructure projects, including the delivery of an SAP enterprise resource planning application in the U.S. for fiscal year 2011 and improvements to our royalty systems for fiscal year 2012. In order to improve operating efficiency, we have begun to develop a long-term capital expenditure plan to upgrade our IT systems, which led to increased levels of capital expenditures in fiscal years 2012 and 2013. We expect to continue increased levels of capital expenditures to upgrade our IT systems in fiscal 2014. We also continue to focus on cost control by seeking sensible opportunities to convert fixed costs to variable costs, to enhance our effectiveness, flexibility, structure and performance by reducing and realigning long-term costs and continuing to implement changes to better align our workforce with the changing nature of the music industry by continuing to shift resources from our physical sales channels to efforts focused on digital distribution and emerging technologies and other new revenue streams.

Continued Transition to Higher-Margin Digital Platforms. We derive revenue from different digital business models and products, including digital downloads of single tracks and albums, digital streaming and subscription services, video streaming and downloads. We have established ourselves as a leader in the music industry s transition to the digital era by expanding our distribution channels through establishing a strong partnership portfolio and developing and enabling the development of innovative products and services, including Internet cloud-based services, to further leverage our content and rights. For the fiscal year ended September 30, 2013, digital revenue represented approximately 38% of our total revenue versus 33% for the fiscal year ended September 30, 2012.

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

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

Strong Management Team and Strategic Investor. Our management team has continued to successfully implement our business strategy, including delivering strong results in our digital business, which, along with our efforts to diversify our revenue mix, are helping us transform our company. At the same time, management has remained vigilant in managing costs and maintaining financial flexibility. During fiscal 2013, our management team successfully completed the Acquisition and related financing and completed a refinancing of our debt (the 2012 Refinancing). In addition, since our acquisition by Access Industries in July 2011, we have benefited from our partnership with Access, which has provided us with strategic direction and planning support to help us manage the ongoing transition in the recorded music industry.

Our Strategy

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

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

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

Capitalize on Digital Distribution. The growth of digital formats should continue to produce new means for the distribution, exploitation and monetization of the assets of our Recorded Music and Music Publishing businesses. We believe that the continued development of legitimate online and mobile channels for the consumption of music-based content and increasing access to digital music services present significant promise and opportunity for the music industry. Digital tracks and albums and streaming and subscription services are reasonably priced for the consumer and offer a superior customer experience relative to illegal alternatives. Legitimate digital music is easy to use, fosters discovery, presents gift options, offers uncorrupted, high-quality song files and integrates seamlessly with popular portable music players such as Apple s iPod/iPhone/iPad devices and smartphones which run on operating systems such as Google s Android, RIM s Blackberry and Microsoft s Windows. Quarterly surveys conducted by NPD over the past four years show that legitimate digital music offerings are driving additional uptake from consumers. The size of the digital music consumer market defined as consumers who bought digital music downloads and/or streamed music in the past three months grew from a projected 87.5 million consumers in calendar Q2 2010 to a projected 103.0 million consumers in calendar Q2 2013, up 18% over the period. Separate research conducted by NPD in December 2012 reveals that key drivers of such uptake among U.S. Internet consumers age 13+ include ease of finding music through digital stores and services, download purchases made for portable/mobile devices, receipt of digital music gift cards, and a greater level of comfort with buying music digitally for those who started buying or bought more digital songs and/or digital albums; and the ability to listen to unlimited music, access to a wide variety of music, convenience, and ease-of-use for those who started using streaming music services (free/ad-supported or paid subscriptions) in the year covered by the survey. We believe digital distribution will drive incremental Recorded Music catalog sales given the ability to offer enhanced presentation and searchability of our catalog.

We intend to continue to extend our global reach by executing deals with new partners and developing optimal business models that will enable us to monetize our content across various platforms, services and devices. In the United States, in the twelve months ending on September 30, 2013, our Recorded Music digital revenue exceeded physical revenue. Research conducted by NPD in August 2013 shows that a quarter of U.S. Internet consumers age 13+ used Pandora in the second quarter of 2013 and more than 20% used YouTube and about a third listened to music via dedicated on-demand audio streaming services like Spotify or Rhapsody, in the period covered by the survey. In addition, with the number of total smartphone subscribers in 54 key countries around the world expected to reach 2.4 billion by 2017, we expect that the mobile platform will represent an area of significant opportunity for music-based content. Figures from comScore s June 2013 MobiLens data release show that the uptake of music among users of such phones is significant: three-month averages through June 2013 reflect that approximately half of existing smartphone users in the U.S. and 41% of their counterparts across five major European territories (the U.K., Germany, France, Spain and Italy) listened to music downloaded and stored or streamed on their handsets from services such as iTunes, Pandora, iHeartRadio, Deezer and Spotify, among other sources. We believe that demand for music-related products, services and applications that are optimized for smartphones as well as devices like Apple s iPod/iPad will continue to grow with the continued development of these platforms.

Enter into Expanded-Rights Deals to Form Closer Relationships with Recording Artists and Capitalize on Revenues From Other Areas of the Music Industry. Since the end of calendar 2005, we have successfully implemented a strategy of entering into expanded-rights deals with new recording artists. This strategy has allowed us to create closer relationships with our recording artists through our provision of additional artist services and greater financial alignment. Expanded-rights deals allow us to diversify our Recorded Music revenue streams and capitalize on ancillary revenues, from merchandising, fan clubs, sponsorship, concert promotion, and artist

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management, among other areas. As part of our strategy, we have built or acquired significant in-house resources to provide additional services to our recording artists and other recording artists. We believe artist services and expanded-rights deals will contribute to Recorded Music revenue growth over time.

Focus on Continued Management of Our Cost Structure. We plan to continue to maintain a disciplined approach to cost management in our business and to pursue additional cost savings with a focus on aligning our cost structure with our strategy and optimizing the implementation of our strategy. As part of this focus, we will continue to monitor industry conditions to ensure that our business remains aligned with industry trends. We also plan to continue to aggressively shift resources from our physical sales channels to efforts focused on digital distribution and other new revenue streams. As digital revenue makes up a greater portion of total revenue, we plan to manage our cost structure accordingly. In addition, we will continue to look for opportunities to convert fixed costs to variable costs through realigning or outsourcing certain functions where these initiatives provided for effective additional cost savings. We are constantly monitoring our costs and seeking additional cost savings. As of the completion of our Merger on July 20, 2011, we targeted cost-savings over the next nine fiscal quarters of $50 million to $65 million based on identified cost-savings initiatives and opportunities, including targeted savings expected to be realized as a result of shifting from a public to a private company, reduced expenses related to finance, legal and IT and reduced expenses related to certain planned corporate restructuring initiatives. The targeted cost-savings program was completed as of June 30, 2013, one quarter early, achieving savings in the high end of the estimated range. As discussed further in Management s Discussion and Analysis of Financial Condition and Results of Operations, we believe PLG has meaningful operation overlap with our existing recorded music business and, as a result, we currently believe there are potential cost savings and other synergies of approximately $70 million available and we have undertaken a plan to achieve these cost savings.

Contain Digital Piracy. Containing piracy is a major focus of the music industry and we, along with the rest of the industry, continue to take multiple measures through the development of new business models, technological innovation, litigation, education and the promotion of legislation and voluntary agreements to combat piracy, including filing civil lawsuits, participating in education programs, lobbying for tougher anti-piracy legislation and other initiatives to preserve the value of music copyrights. We expect that the effectiveness of technological measures to deter piracy will continue to improve including the ability to automate large-scale takedowns of infringing links, the identification of major brands advertising on rogue sites, sending notices via ISPs to repeat infringers and website/domain blocking. We believe these actions and technologies, in addition to the expansive growth of legitimate online and mobile music offerings, will help to limit the revenue lost to digital piracy. Research conducted by IFPI (defined below) shows that global piracy is on the decline, with the number of pirate users falling from over 30% of the global internet population in July 2012 to 27% of the internet population by July 2013.

Recorded Music (83%, 81% and 81% of consolidated revenues, before intersegment eliminations, for fiscal year ended September 30, 2013, fiscal year ended September 30, 2012, and twelve months ended September 30, 2011)

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

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

Outside the U.S., our Recorded Music activities are conducted in more than 50 countries primarily through various subsidiaries, affiliates and non-affiliated licensees. Internationally we engage in the same activities as in the U.S.: 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 to unaffiliated third-party record labels the right to distribute our records. Our international artist services operations also include a network of concert promoters through which we provide resources to coordinate tours for our artists and other artists.

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

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

We have integrated the sale of digital content into all aspects of our Recorded Music and Music Publishing businesses including A&R, marketing, promotion and distribution. Our business development executives work closely with A&R departments to make sure that while a record is being made, digital assets are also created with all distribution channels in mind, including subscription services, social networking sites, online portals and music-centered destinations. We also work side by side with our mobile and online partners to test new concepts. We believe existing and new digital businesses will be a significant source of growth for at least the next several years and will provide new opportunities to successfully monetize our assets and create new revenue streams. The proportion of digital revenues attributed to each distribution channel varies by region and proportions may change as the roll out of new technologies continues. As an owner of musical content, we believe we are well positioned to take advantage of growth in digital distribution and emerging technologies to maximize the value of our assets.

We are also diversifying our revenues beyond our traditional businesses by entering into expanded-rights deals with recording artists in order to partner with artists in other areas of their careers. Under these agreements, we provide services to and participate in artists activities outside the traditional recorded music business. We built artist services capabilities and platforms for exploiting this broader set of music-related rights and participating more broadly in the monetization of the artist brands we help create.

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

A&R

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

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

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

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

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Representative Worldwide Recorded Music Artists

3Oh!3	Deftones	James Blunt	Never Shout Never	Skillet
a-Ha	Jason Derulo	Katherine Jenkins	Nickelback	Skrillex
Air	Disturbed	Jethro Tull	Stevie Nicks	Slipknot
Airbourne	Donkeyboy	Johnny Hallyday	Notorious B.I.G.	The Smiths
Jean-Louis Aubert	The Doors	Julien Clerc	Paolo Nutini	Regina Spektor
Avenged Sevenfold	Dream Theater	k.d. lang	Opeth	Staind
B.o.B	Duran Duran	Kid Rock	Pablo Alboran	Rod Stewart
The Baseballs	Eagles	Killswitch Engage	Panic! At the Disco	The Streets
Jeff Beck	Brett Eldrege	Kobukuro	Pantera	Alain Souchon
Bee Gees	Eliza Doolittle	Korn	Paramore	Stone Sour
Biffy Clyro	Missy Elliott	Jana Kramer	Laura Pausini	Stone Temple Pilots
Big & Rich	The Enemy	Larry the Cable Guy	Pendulum	Superfly
Billy Talent	Enya	Hugh Laurie	Christina Perri	Mariya Takeuchi
Birdy	Estelle	Led Zeppelin	Peter Fox	Serj Tankian
The Black Keys	Jimmy Fallon	Ligabue	Tom Petty	Tegan and Sara
Black Sabbath	Flaming Lips	Lily Allen	Pink Floyd	Tina Turner
Blur	Fleetwood Mac	Linkin Park	Plan B	Tinie Tempah
Miguel Bosé	Flo Rida	Lupé Fiasco	Plies	Theory of a Deadman
Michelle Branch	Aretha Franklin	Lynyrd Skynyrd	Primal Scream	Rob Thomas
Bruno Mars	Foreigner	M. Pokora	R.E.M.	Rush
Michael Bublé	fun.	Machine Head	Radiohead	T.I.
Camille	Genesis	Christophe Maé	The Ramones	Theophilus London
The Cars	Gloriana	Magic System	Randy Travis	Trans-Siberian Orchestra
Cee Lo Green	Gnarls Barkley	Maná	The Ready Set	Trey Songz
Tracy Chapman	Gojira	Mastodon	Red Hot Chili Peppers	Twisted Sister
Ray Charles	Goo Goo Dolls	matchbox twenty	Damien Rice	Uncle Kracker
Cher	Josh Groban	MC Solaar	Kenny Rodgers	Van Halen
Chicago	Grateful Dead	Megadeath	Roxette	Paul Wall
Eric Clapton	Green Day	Bette Midler	Rumer	Westernhagen
Cobra Starship	Gorillaz	Luis Miguel	Todd Rundgren	Wilco
Coldplay	Gucci Mane	Kylie Minogue	Alejandro Sanz	Wiz Khalifa
Phil Collins	David Guetta	Janelle Monáe	Jill Scott	The Wombats
Alice Cooper	Gym Class Heroes	The Monkees	Seal	Neil Young
The Corrs	Halestorm	Jason Mraz	Sean Paul	Young the Giant
Crosby, Stills & Nash	Hard-Fi	Murderdolls	Seeed	Youssou N Dour
Sheryl Crow	Emmylou Harris	Muse	Ed Sheeran	Zac Brown Band
Daft Punk	Hunter Hayes	Musiq Soulchild	Blake Shelton	ZZ Top
Danger Mouse	Faith Hill	My Chemical Romance	Shinedown	
David Bowie	Iron Maiden	Nek	Sigur Ros	
Death Cab for Cutie	Jaheim	New Order	Simple Plan	

Recording Artists Contracts

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

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

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

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

Marketing and Promotion

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

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

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

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

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

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Manufacturing, Packaging and Physical Distribution

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

Sales

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

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

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

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

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

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

Music Publishing (17%, 19% and 19% of consolidated revenues, before intersegment eliminations, for fiscal year ended September 30, 2013, fiscal year ended September 30, 2012, and twelve months ended September 30, 2011)

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

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

Music Publishing Portfolio

Representative Songwriters

Beyoncé
Michelle Branch
Bruno Mars
Michael Bublé
Eric Clapton
Bryan-Michael Cox
Dido
Dream
fun.
Kenneth Gamble and Leon Huff
George and Ira Gershwin
Barry Gibb
Green Day
Dave Grohl
Wayne Hector
Don Henley
Claude Kelly
Lady Antebellum
Led Zeppelin
Lil Wayne
Little Big Town
Madonna
Maná
James Otto
Jay Z
Johnny Mercer
George Michael
Van Morrison
Muse
Tim Nichols
Nickelback
Harry Nilsson
Paramore
Katy Perry
Plain White T s
Cole Porter
Radiohead
The Ramones
Red Hot Chili Peppers
R.E.M.
Damien Rice
Alejandro Sanz
Stephen Sondheim
Staind
T.I.
Timbaland
Van Halen
Kurt Weill
Barry White
John Williams
Lucinda Williams
Rob Zombie

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Representative Songs

1950s and Prior	1960s	1970s
As Time Goes By	Build Me Up Buttercup	A Horse With No Name
Dream A Little Dream Of Me	Everyday People	Ain t No Stopping Us Now
Frosty The Snowman	For What It s Worth	Hot Stuff
Happy Birthday To You	I Only Want To Be With You	Killing Me Softly
Jingle Bell Rock	Save The Last Dance For Me	Layla
Misty	This Magic Moment	Listen To The Music
Night And Day	Viva Las Vegas	Moondance
Summertime	Walk On By	Stairway To Heaven
When I Fall In Love	When A Man Loves A Woman	Star Wars Theme
Winter Wonderland	Whole Lotta Love	Staying Alive

1980s	1990s	2000s	2010 and after
Celebration	Amazed	American Idiot	Black & Yellow
Endless Love	Believe	Complicated	Firework
Eye Of The Tiger	Creep	Crazy	Grenade
Flashdance	Gonna Make You Sweat	Crazy In Love	Just The Way You Are
Indiana Jones Theme	Livin La Vida Loca	Gotta Be Somebody	Last Friday Night (T.G.I.F.)
Jump	Losing My Religion	Hey There Delilah	Lighters
Like A Prayer	Macarena	Home	No Hands
Morning Train	Smooth	I Kissed A Girl	Rocketeer
Slow Hand	Sunny Came Home	Rockstar	Somebody That I Used To Know
The Wind Beneath My Wings	This Kiss	White Flag	We Are Young

Music Publishing Royalties

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

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

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

Performance: performance of the song to the general public

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

Mechanical: sale of recorded music in various physical formats

- Physical recordings such as CDs, LPs, and DVDs

Synchronization: use of the song in combination with visual images

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

Digital:

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

Other:

- Licensing of copyrights for use in printed sheet music

Composers and Lyricists Contracts

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

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

Competition

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

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

The recorded music industry is highly competitive based on consumer preferences, and is rapidly changing. At its core, the recorded music business relies on the exploitation of artistic talent. As such, competitive strength is predicated upon the ability to continually develop and market new artists whose work gains commercial acceptance. According to Music and Copyright, in 2012, the four largest major record companies were Universal, Sony, us and EMI (prior to the close of Universal s acquisition of EMI s recorded music division in September 2012 and our acquisition of PLG in July 2013), which collectively accounted for 76% of worldwide recorded music sales. There are many mid-sized and smaller players in the industry that accounted for the remaining 24%, including independent music companies. Universal was the market leader with a 32% worldwide market share in 2012, followed by Sony with a 22% share. We and EMI held 15% and 7% shares of worldwide recorded music sales, respectively.

The music publishing business is also highly competitive. The top four music publishers (prior to the close of the sale of EMI s music publishing division to a consortium including Sony Corporation of America) collectively accounted for approximately 67% of the market. Based on Music & Copyright s most recent estimates published in May 2013, Universal, having acquired BMG Music Publishing Group in 2007, was the market leader in music publishing in 2012, holding a 23% global share. EMI was the second largest music publisher with a 19% share (prior to its sale to a consortium including Sony Corporation of America), followed by us (Warner/Chappell) at 14% and Sony/ATV at 12%. Independent music publishers represent the balance of the market, as well as many individual songwriters who publish their own works.

In 2012, Universal closed its acquisition of EMI s recorded music division and a group including Sony Corporation of America (an affiliate of Sony/ATV) closed its acquisition of EMI s music publishing division, each of which were contingent upon the divesture of certain assets. The sale of EMI s recorded music division may affect the competitive landscape among the major record companies going forward. The sale of EMI s music publishing division may affect the competitive landscape among the major music publishers going forward. See Risk Factors Consolidation in our industry may materially and adversely affect our ability to compete.

Intellectual Property

Copyrights

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

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copyright in which had expired by that date. The E.U. also recently harmonized the copyright term for joint musical works. In the case of a musical composition with words that is protected by copyright on or after November 1, 2013, E.U. member states are required to calculate the life of the author plus 70 years term from the date of death of the last surviving author of the lyrics and the composer of the musical composition, provided that both contributions were specifically created for the respective song.

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

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

Trademarks

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

Joint Ventures

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

Employees

As of September 30, 2013, we employed approximately 4,325 persons worldwide, including temporary and part-time employees as well as approximately 550 employees that were added with the acquisition of PLG. PLG has meaningful operation overlap with the Company and, as a result, we are in the process of implementing restructuring and other cost-savings initiatives subsequent to the completion of the Acquisition. None of our employees in the U.S. is subject to a collective bargaining agreement, although certain employees in our non-domestic companies are covered by national labor agreements. We believe that our relationship with our employees is good.

Financial Information About Segments and Foreign and Domestic Operations

Financial and other information by segment, and relating to foreign and domestic operations, for each of the last three fiscal years is set forth in Note 17 to the Consolidated Audited Financial Statements.

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INDUSTRY OVERVIEW

Recorded Music

Recorded music is one of the primary mediums of entertainment for consumers worldwide and in calendar year 2012, according to IFPI, generated $16.5 billion in trade value of sales. Over time, major recorded music companies have built significant recorded music catalogs, which are long-lived assets that are exploited year after year. The sale of catalog material is typically more profitable than that of new releases, given lower development costs and more limited marketing costs. Through the end of calendar Q3 2013 (i.e., the week ending September 29, 2013), according to SoundScan, 49% of all calendar year-to-date U.S. album unit sales were from recordings more than 18 months old, with 40% from recordings more than three years old.

According to IFPI, the top five territories (the U.S., Japan, the U.K., Germany and France) collectively accounted for 76% of the related sales in the recorded music market in calendar year 2012. The U.S., which is the most significant exporter of music, is also the largest territory for recorded music sales, constituting 27% of total calendar year 2012 recorded music sales on a trade value basis. The U.S. and Japan are largely local music markets, with 93% and 85% of their calendar year 2012 physical music sales consisting of domestic repertoire, respectively. In contrast, markets like the U.K. have higher percentages of international sales, with domestic repertoire in that territory constituting a relatively lower 52% of album unit sales and 44% of singles unit sales.

There has been a major shift in distribution of recorded music from specialty shops towards mass-market and online retailers in recent years. According to RIAA, record stores share of U.S. music sales declined from 45% in calendar year 1999 to 30% in calendar year 2008, and according to the market research firm NPD, record/entertainment/electronics stores share of U.S. music sales totaled 18% in 2009. Over the course of the last decade, U.S. mass-market and other stores share grew from 38% in calendar 1999 to 54% in calendar year 2004, and with the subsequent growth of sales via online channels since that time, their share contracted to 28% in calendar year 2008. Mass-market retailers accounted for 21% of total industry unit sales calculated on a total album plus digital track equivalent (ten tracks per album) unit basis in the U.S. in calendar year 2012, according to SoundScan data. In recent years, online sales of physical product as well as digital downloads have grown to represent an increasing share of U.S. sales and combined they accounted for 63% of total industry unit sales in calendar year 2012. In terms of genre, rock remains the most popular style of music in the U.S., representing 37% of album unit sales and 24% of digital track unit sales in the U.S. in calendar year 2013 through September 29, although genres such as rap/hip-hop, R&B, country, pop and Latin music are also popular.

According to RIAA, from calendar years 1990 to 1999, the U.S. recorded music industry grew at a compound annual growth rate of 7.6%. This growth, largely paralleled around the world, was driven by demand for music, the replacement of vinyl LPs and cassettes with CDs, price increases and strong economic growth. The industry began experiencing negative growth rates in calendar year 1999, on a global basis, primarily driven by an increase in digital piracy. Other drivers of this decline were and are the overall recessionary economic environment, bankruptcies of record retailers and wholesalers, growing competition for consumer discretionary spending and retail shelf space and the maturation of the CD format, which has slowed the historical growth pattern of recorded music sales. Since that time, annual dollar sales of physical music product in the U.S. are estimated to have declined at a compound annual growth rate of 12%, although there was a 2.5% year-over-year increase recorded in 2004. In calendar year 2012, the physical business experienced a 17% year-over-year decline on a value basis. Performance in calendar year 2013 thus far has been somewhat more encouraging, although it remains to be seen if this can be sustained. According to SoundScan, through the end of calendar Q3 2013 (i.e., the week ending September 29, 2013), calendar year-to-date U.S. recorded music album unit sales (excluding sales of digital tracks) were down just 6% year-over-year. According to SoundScan, adding digital track sales to the unit album totals based on SoundScan s standard ten-tracks-per-album equivalent, the U.S. music industry was down 5% in overall album unit sales calendar year-to-date through Q3 2013. The overall declining trend that has been experienced in the U.S. has also been witnessed in international markets, with the extent of declines driven primarily by differing penetration levels of piracy-enabling technologies, such as broadband access and CD-R technology, and economic conditions.

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

Piracy

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

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

Industrial piracy (also called counterfeiting or physical piracy) involves mass production of illegal CDs and cassettes in factories. This form of piracy is largely concentrated in developing regions, and has existed for more than two decades. The sale of legitimate recorded music in these developing territories is limited by the dominance of pirated products, which are sold at substantially lower prices than legitimate products. Based upon most recent data available, the International Intellectual Property Alliance (IIPA) estimated that U.S. trade losses due to physical piracy of records and music in 39 key countries/territories around the world with copyright protection and/or enforcement deficiencies totaled $1.5 billion in 2009. The IIPA also believes that piracy of records and music is most prevalent in territories such as Indonesia, China, the Philippines, Mexico, India and Argentina, where piracy levels are at 60% or above.

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

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

Educational: Led by RIAA and IFPI, the industry has launched an aggressive campaign of consumer education designed to spread awareness of the illegality of various forms of piracy through aggressive print and television advertisements. These efforts have yielded positive results in impacting consumer behaviors and attitudes with regard to filesharing of music. A survey conducted by The NPD Group, a market research firm, in December 2012 showed that about 1 in 10 U.S. Internet users aged 13 or older who had not downloaded music from free filesharing services in the past two years, and an equal proportion of those who had done so but then stopped or decreased their usage of filesharing services for music in the year covered by the survey, were motivated by concerns about being sued and/or the legality of such services. Research conducted by Ipsos MediaCT in November 2012 across nine countries found that nearly 3 out of every 5 Internet users aged 16-64 believed that accessing music through services that don t have the copyright owner s permission is unfair to those creating and producing the content.

Legal: In conjunction with its educational efforts, the industry has taken aggressive legal action against file-sharers and is continuing to fight industrial pirates. These actions include civil lawsuits in the U.S. and E.U. against individual pirates, arrests of pirates in Japan and raids against filesharing services in Australia. At one time U.S. lawsuits targeted individuals who illegally shared large quantities of music-based content. A number of court decisions, including the decisions in the cases involving Grokster and KaZaA, have held that one who distributes a device, such as P2P software, with the object of promoting

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its use to infringe copyright can be liable for the resulting acts of infringement by third parties using the device regardless of the lawful uses of the device. In May 2011, the major record companies, including us, reached a global out-of-court settlement of copyright litigation against LimeWire. Under the terms of the settlement, the LimeWire defendants agreed to pay compensation to record companies that brought the action, including us.

Development of online and mobile alternatives: We believe that the development and success of legitimate digital music channels will be an important driver of recorded music sales and monetization going forward, as they represent both an incremental revenue stream and a potential inhibitor of piracy. The music industry has been encouraged by the proliferation and early success of legitimate digital music distribution options. We believe that these legitimate online distribution channels offer several advantages to illegal peer-to-peer networks, including greater ease of use, higher quality and more consistent music product, faster downloading and streaming, better search and discovery capabilities and seamless integration with portable digital music players. Legitimate online download stores and subscription music services began to be established between early 2002 and April 2003 beginning with the launch of Rhapsody in late 2001 and continuing through the launch of Apple s iTunes music store in April 2003. Since then, many others (both large and small) have launched download, subscription, and ad-supported music services, offering a variety of models, including per-track pricing, per-album pricing and monthly subscriptions. According to IFPI in the 2013 edition of their annual Recording Industry in Numbers publication, there are about 500 legal digital music services providing alternatives to illegal filesharing in markets around the world, with major international services operating in more than 100 territories. Devices such as smartphones and tablets that are equipped with new capabilities are increasingly offering consumers greater capability to acquire and consume full-track downloads and streaming audio and video through mobile platforms as well as online. These devices are further facilitating usage of legitimate options.

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

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

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

Music Publishing

Background

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

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

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

The music publishing market has proven to be more resilient than the recorded music market in recent years as revenue streams other than mechanical royalties are largely unaffected by piracy, and are benefiting from additional sources of income from digital exploitation of music in downloads and mobile ringtones. The worldwide professional music publishing market was estimated to have generated approximately $3.9 billion in revenues in calendar year 2012 according to figures published in May 2013 by Music & Copyright.

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

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ITEM 1A. RISK FACTORS

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

Risks Related to our Business

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

The industry began experiencing negative growth rates in 1999 on a global basis and the worldwide recorded music market has contracted considerably since then. Illegal downloading of music, CD-R piracy, industrial piracy, economic recession, bankruptcies of record wholesalers and retailers, and growing competition for consumer discretionary spending and retail shelf space may have all contributed to the decline in the recorded music industry. Additionally, the period of growth in recorded music sales driven by the introduction and penetration of the CD format has long ended. While CD sales still generate a significant portion of the recorded music revenues globally, CD sales continue to decline industry-wide and we expect that trend to continue. However, new formats for selling recorded music product have been created, including the legal downloading of digital music and the distribution of music on mobile devices and revenue streams from these new channels have emerged. These new digital revenue streams are important as they are offsetting declines in physical sales and represent a growing area of our Recorded Music business. In addition, we are also taking steps to broaden our revenue mix into growing areas of the music business, including sponsorship, fan clubs, artist websites, merchandising, touring, ticketing and artist management. As our expansion into these new areas is fairly recent, we cannot determine how our expansion into these new areas will impact our business. While there are signs of industry stabilization, with IFPI reporting that global recorded music industry revenues grew 0.2% in 2012, the first time the industry grew year-over-year in 13 years, and, according to the RIAA, the estimated retail value of the U.S. recorded music industry unit sales declined by only 0.9% in 2012, a marked improvement versus a decade of steep declines prior to 2011, sales continued to fall in other countries, and the industry continues to be impacted as a result of ongoing digital piracy and the transition from physical to digital sales in the recorded music business. Accordingly, the recorded music industry performance may continue to negatively impact our operating results. While it is believed within the recorded music industry that growth in digital sales will re-establish a growth pattern for recorded music sales, the timing of the recovery cannot be established with accuracy nor can it be determined how these changes will affect individual markets. A declining recorded music industry is likely to lead to reduced levels of revenue and operating income generated by our Recorded Music business. Additionally, a declining recorded music industry is also likely to have a negative impact on our Music Publishing business, which generates a significant portion of its revenues from mechanical royalties attributable to the sale of music in CD and other physical recorded music formats.

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

There are a variety of factors that could cause us to reduce our prices and reduce our profit margins. They are, among others, price competition from the sale of motion pictures and videogames in physical and digital formats, the negotiating leverage of mass merchandisers, big-box retailers and distributors of digital music, the increased costs of doing business with mass merchandisers and big-box retailers as a result of complying with operating procedures that are unique to their needs and any changes in costs associated with new digital formats. In addition, we are currently dependent on a small number of leading digital music services, which allows them to significantly influence the prices we can charge in connection with the distribution of digital music. Over the course of the last decade, U.S. mass-market and other stores share of U.S. physical music sales has continued to grow. While we cannot predict how future competition will impact music retailers, as the music industry continues to transform it is possible that the share of music sales by a small number of leading mass-market retailers such as Wal-Mart and Target and digital music services such as Apple s iTunes and Google Play will continue to grow, which could further increase their negotiating leverage and put pressure on profit margins. See We are substantially dependent on a limited number of online music stores, in particular Apple s iTunes Music Store, for the online sale of our music recordings and they are able to significantly influence the pricing structure for online music stores.

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

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

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

The combined effect of the decreasing cost of electronic and computer equipment and related technology such as CD burners and the conversion of music into digital formats have made it easier for consumers to obtain and create unauthorized copies of our recordings in the form of, for example, burned CDs and MP3 files. For example, about 95% of the music downloaded in 2008, or more than 40 billion files, were illegal and not paid for, according to IFPI s 2009 Digital Music Report. Separately, third-party research cited by IFPI in IFPI s 2013 Digital Music Report indicates that nearly a third of Internet users globally (32%) still access unauthorized digital sites/services on a regular basis. In addition, while growth of music-enabled mobile consumers offers distinct opportunities for music companies such as ours, it also opens the market up to risks from behaviors such as sideloading of unauthorized content and illegitimate user-created ringtones. A substantial portion of our revenue comes from the sale of audio products that are potentially subject to unauthorized consumer copying and widespread digital dissemination without an economic return to us. The impact of digital piracy on legitimate music sales is hard to quantify but we believe that illegal filesharing has a substantial negative impact on music sales. We are working to control this problem in a variety of ways including by litigation, by lobbying governments for new, stronger copyright protection laws and more stringent enforcement of current laws, through graduated response programs achieved through cooperation with ISPs and legislation being advanced or considered in many countries, through technological measures and by enabling legitimate new media business models. We cannot give any assurances that such measures will be effective. If we fail to obtain appropriate relief through the judicial process or the complete enforcement of judicial decisions issued in our favor (or if judicial decisions are not in our favor), if we are unsuccessful in our efforts to lobby governments to enact and enforce stronger legal penalties for copyright infringement or if we fail to develop effective means of protecting our intellectual property (whether copyrights or other rights such as patents, trademarks and trade secrets) or our entertainment-related products or services, our results of operations, financial position and prospects may suffer.

Organized industrial piracy may lead to decreased sales.

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

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

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

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

We derive an increasing portion of our revenues from sales of music through digital distribution channels. We are currently dependent on a small number of leading online music stores that sell consumers digital music. Currently, the largest U.S. online music store, iTunes, typically charges U.S. consumers prices ranging from $0.69 to $1.29 per single-track download. We have limited ability to increase our wholesale prices to digital service providers for digital downloads as Apple s iTunes controls 65% 75% of the legitimate digital music track download business in the U.S. according to third-party estimates. If Apple s iTunes were to adopt a lower pricing model or if there were structural change to other download pricing models, we may receive substantially less per download for our music, which could cause a material reduction in our revenues, unless it is offset by a corresponding increase in the number of downloads. Additionally, Apple s iTunes and other digital music

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services at present accept and make available for sale all the recordings that we and other distributors deliver to them. However, if digital music services in the future decide to limit the types or amount of music they will accept from music-based content owners like us, our revenues could be significantly reduced.

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

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

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

Our net sales, operating income and profitability, like those of other companies in the music business, are largely affected by the number and quality of albums that we release or that include musical compositions published by us, timing of release schedules and, more importantly, the consumer demand for these releases. We also make advance payments to recording artists and songwriters, which impact our operating cash flows. The timing of album releases and advance payments is largely based on business and other considerations and is made without regard to the impact of the timing of the release on our financial results. We report results of operations quarterly and our results of operations and cash flows in any reporting period may be materially affected by the timing of releases and advance payments, which may result in significant fluctuations from period to period.

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

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

Consolidation in our industry may materially and adversely affect our ability to compete.

On September 28, 2012, Universal announced that it had closed its acquisition of EMI s recorded music division following clearance of the deal by the U.S. Federal Trade Commission and the European Commission. The acquisition combined the first-and fourth-largest record companies to increase the size of Universal, which was already the world s largest record company.

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On June 29, 2012 Sony Corporation of America (an affiliate of Sony/ATV), in conjunction with the Estate of Michael Jackson, Mubadala Development Company PJSC, Jynwel Capital Limited, the Blackstone Group s GSO Capital Partners LP and David Geffen announced that it had closed its acquisition of EMI s music publishing division following clearance of the deal by the U.S. Federal Trade Commission and the European Commission. The acquisition combined the second-and fourth-largest music publishing companies to create the world s largest music publishing company.

There may in the future be additional mergers and acquisitions and changes in our industry, including those in which we may in the future participate and those that may be undertaken by others. Universal s acquisition of the recorded music division of EMI and Sony s acquisition of the music publishing division of EMI, as well as any further industry consolidation, have and will continue to substantially alter the competitive landscape, and could materially and adversely affect our ability to compete, our business and results of operations, and result in changes to our corporate or business strategy. We regularly assess and explore our strategic position and ways to enhance our competitiveness, including the possibilities for our acquisition of strategic assets sold by competitors in our industry, or our participation in merger activity with other industry participants.

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

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

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

- recessionary trends, inflation and instability of the financial markets;
- higher interest rates; and
- political instability.

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

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

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

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

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

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

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

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

Mechanical royalties and performance royalties are the two largest sources of income to our Music Publishing business and mechanical royalties are a significant expense to our Recorded Music business. In the U.S., mechanical royalty rates are set pursuant to an administrative rate-setting process under the U.S. Copyright Act unless rates are determined through voluntary industry negotiations and performance royalty rates are set by performing rights societies and subject to challenge by performing rights licensees. Mechanical royalties are paid at a penny rate of 9.1 cents per song per unit in the U.S. for physical formats (e.g., CDs and vinyl albums) and permanent digital downloads (recordings in excess of five minutes attract a higher rate) and 24 cents for ringtones. Outside the U.S., mechanical and performance royalty rates are typically negotiated on an industry-wide basis. In most territories outside the U.S., mechanical royalties are based on a percentage of wholesale prices for physical product and based on a percentage of consumer prices for digital products. The mechanical and performance royalty rates set pursuant to such processes may adversely affect us by limiting our ability to increase the profitability of our Music Publishing business. If the mechanical royalty rates are set too high it may also adversely affect us by limiting our ability to increase the profitability of our Recorded Music business. In addition, rates our Recorded Music business receives in the U.S. for, among other sources of income and potential income, webcasting and satellite radio are set by an administrative process under the U.S. Copyright

Act unless rates are determined through voluntary industry negotiations. It is important as sales shift from physical to diversified distribution channels that we receive fair value for all of the uses of our intellectual property as our business model now depends upon multiple revenue streams from multiple sources. If the rates for Recorded Music income sources that are established through legally prescribed rate-setting processes are set too low, it could have a material adverse impact on our Recorded Music business or our business prospects.

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

On September 30, 2013, we had $1.668 billion of goodwill and $120 million of indefinite-lived intangible assets. Financial Accounting Standards Codification (ASC) Topic 350, Intangibles Goodwill and other (ASC 350) requires that we test these assets for impairment annually (or more frequently should indications of impairment arise) by first assessing qualitative factors and then by quantitatively estimating the fair value of each of our reporting units (calculated using a discounted cash flow method) and comparing that value to the reporting units carrying value if necessary. If the carrying value exceeds the fair value, there is a potential impairment and additional testing must be performed. In performing our annual tests and determining whether indications of impairment exist, we consider numerous factors including actual and projected operating results of each reporting unit, external market factors such as market prices for similar assets, and trends in the music industry. The Company performed an annual assessment, at July 1, 2013, of the recoverability of its goodwill and indefinite-lived intangibles as of September 30, 2013, noting no instances of impairment. However, future events may occur that could adversely affect the estimated fair value of our reporting units. Such events may include, but are not limited to, strategic decisions made in response to changes in economic and competitive conditions and the impact of the economic environment on our operating results. Failure to achieve sufficient levels of cash flow at our reporting units could also result in impairment charges on goodwill and indefinite-lived intangible assets. If the value of the acquired goodwill or acquired indefinite-lived intangible assets is impaired, our operating results and shareholders equity could be adversely affected.

We also had $3.107 billion of definite-lived intangible assets as of September 30, 2013. Financial Accounting Standards Board (FASB) ASC Topic 360-10-35, (ASC 360-10-35) requires companies to review these assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. If similar events occur as enumerated above such that we believe indicators of impairment are present, we would test for recoverability by comparing the carrying value of the asset to the net undiscounted cash flows expected to be generated from the asset. If those net undiscounted cash flows do not exceed the carrying amount, we would perform the next step, which is to determine the fair value of the asset, which could result in an impairment charge. Any impairment charge recorded would negatively affect our operating results and shareholders equity.

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

The reporting currency for our financial statements is the U.S. dollar. We have substantial assets, liabilities, revenues and costs denominated in currencies other than U.S. dollars. To prepare our consolidated financial statements, we must translate those assets, liabilities, revenues and expenses into U.S. dollars at then-applicable exchange rates. Consequently, increases and decreases in the value of the U.S. dollar versus other currencies will affect the amount of these items in our consolidated financial statements, even if their value has not changed in their original currency. These translations could result in significant changes to our results of operations from period to period. Prior to intersegment eliminations, approximately 60% of our revenues related to operations in foreign territories for the fiscal year ended September 30, 2013. From time to time, we enter into foreign exchange contracts to hedge the risk of unfavorable foreign currency exchange rate movements. As of September 30, 2013, we have hedged a portion of our material foreign currency exposures related to royalty payments remitted between our foreign affiliates and our U.S. affiliates through the end of the current fiscal year.

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

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

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

California Labor Code Section 2855 (Section 2855) limits the duration of time any individual can be bound under a contract for personal services to a maximum of seven years. In 1987, Subsection (b) was added, which provides a limited exception to Section 2855 for recording contracts, creating a damages remedy for record companies. Legislation was introduced in New York in 2009 to create a statute similar to Section 2855 to limit contracts between artists and record companies to a term of seven years which term could be reduced to three years if the artist was not represented in the negotiation and execution of such contracts by qualified counsel experienced with entertainment industry law and practices. There is no assurance that California will not introduce legislation in the future seeking to repeal Subsection (b). The repeal of Subsection (b) and/or the passage of legislation similar to Section 2855 by other states could materially affect our results of operations and financial position.

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

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

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

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

Any future strategic transaction could involve numerous risks, including:

- potential disruption of our ongoing business and distraction of management;
- potential loss of recording artists or songwriters from our rosters;
- difficulty integrating the acquired businesses or segregating assets to be disposed of;

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- exposure to unknown and/or contingent or other liabilities, including litigation arising in connection with the acquisition, disposition and/or against any businesses we may acquire;

- reputational or other damages to our business as a result of a failure to consummate such a transaction for, among other reasons, failure to gain anti-trust approval; and

- changing our business profile in ways that could have unintended consequences.

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

Our recent acquisition of PLG presents the risks applicable to acquisitions described above.

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

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

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

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

The recorded music industry continues to undergo substantial change. These changes continue to have a substantial impact on our business. See The recorded music industry has been declining and may continue to decline, which may adversely affect our prospects and our results of operations. Following the 2004 acquisition of substantially all of the interests of the recorded music and music publishing business of Time Warner, we implemented a broad restructuring plan in order to adapt our cost structure to the changing economics of the music industry. Since then, we have continued to shift resources from our physical sales channels to efforts focused on digital distribution, emerging technologies and other new revenue streams. In addition, in order to help mitigate the effects of the recorded music transition, we continue our efforts to reduce overhead and manage our variable and fixed-cost structure to minimize any impact. In connection with the Merger we targeted $50 million to $65 million in cost-savings and we have subsequently completed this cost-savings program and captured these targeted savings at the high end of the estimated range as of June 30, 2013. In addition, as PLG has meaningful operational overlap with our existing business, we currently believe there are potential cost savings and other synergies of approximately $70 million available in connection with the Acquisition. However, there can be no assurances that these cost-savings and other syner
gies will be achieved in full.

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

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

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

Additionally, Access is in the business of making investments in companies and is actively seeking to acquire interests in businesses that operate in our industry and may compete, directly or indirectly, with us. Access may also pursue acquisition opportunities that may be complementary to our business, which could have the effect of making such acquisition opportunities unavailable to us. Access could elect to cause us to enter into business combinations or other transactions with any business or businesses in our industry that Access may acquire or control, or we could become part of a group of companies organized under the ultimate common

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control of Access that may be operated in a manner different from the manner in which we have historically operated. Any such business combination transaction could require that we or such group of companies incur additional indebtedness, and could also require us or any acquired business to make divestitures of assets necessary or desirable to obtain regulatory approval for such transaction. The amounts of such additional indebtedness, and the size of any such divestitures, could be material. Access may also from time to time purchase outstanding debt securities that we issued and could also subsequently sell any such debt securities. Any such purchase or sale may affect the value of, trading price or liquidity of our debt securities.

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

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

Cinram International Inc. (collectively, with its affiliates and subsidiaries, Cinram) has been our primary supplier for the manufacturing, packaging and physical distribution of our products in the U.S. and Canada and part of Europe. In April 2012, in connection with its earnings report, Cinram described certain events and conditions that indicated the existence of a material uncertainty that may have cast significant doubt about Cinram s ability to continue as a going concern, including the breach of certain of the financial covenants in its senior credit agreements. Subsequently, in June 2012, Cinram announced that it would sell its core business in North America and Europe to the Najafi Companies. The sale of Cinram s North American assets closed in August 2012 and the sale of Cinram s European operations closed in January 2013. Any future inability of Cinram to continue to provide services due to financial distress, refinancing issues or otherwise could also require us to switch to substitute suppliers of these services for more services than currently planned.

As Cinram continues to be our primary supplier of manufacturing and distribution services in the U.S., Canada and part of Europe, our continued ability to meet our manufacturing, packaging and physical distribution requirements in those territories depends largely on Cinram s continued successful operation in accordance with the service level requirements mandated by us in our service agreements. If, for any reason, Cinram were to fail to meet contractually required service levels, or were unable to otherwise continue to provide services, we may have difficulty satisfying our commitments to our wholesale and retail customers in the short term until we more fully transitioned to an alternate provider, which could have an adverse impact on our revenues.

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

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

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likely to result in a greater compliance burden for companies with consumers in Europe. Globally, many government and consumer agencies have also called for new regulation and changes in industry practices with respect to information collected from consumers.

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

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

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

If we or our service providers do not maintain the security of information relating to our customers, employees and vendors, security information breaches through cybersecurity attacks or otherwise could damage our reputation with customers, employees and vendors, and we could incur substantial additional costs and become subject to litigation. Moreover, even if we or our service providers maintain such security, such breaches remain a possibility due to the fact that no data security system is immune from attacks or other incidents.

We receive certain personal information about our customers and potential customers, and we also receive personal information concerning our employees, artists and vendors. In addition, our online operations depend upon the secure transmission of confidential information over public networks. We maintain security measures with respect to such information, but despite these measures, we may be vulnerable to security breaches by computer hackers and others that attempt to penetrate the security measures that we have in place. A compromise of our security systems (through cyber-attacks or otherwise which are rapidly evolving and sophisticated) that results in personal information being obtained by unauthorized persons could adversely affect our reputation with our customers, potential customers, employees, artists and vendors, as well as our operations, results of operations, financial condition and liquidity, and could result in litigation against us or the imposition of governmental penalties. In addition, a security breach could require that we expend significant additional resources related to our information security systems and could result in a disruption of our operations.

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

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Risks Related to our Leverage

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

We are highly leveraged. As of September 30, 2013, our total consolidated indebtedness, including the current portion, was $2.867 billion. In addition, we would have been able to borrow up to $150 million under our Revolving Credit Facility (not giving effect to letters of credit outstanding of approximately $1 million as of September 30, 2013).

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We will require a significant amount of cash to service our indebtedness. The ability to generate cash or refinance indebtedness as it becomes due depends on many factors, some of which are beyond our control.

Our ability to make scheduled payments on, or to refinance our obligations under, our indebtedness and to fund planned capital expenditures and other corporate expenses will depend on our future operating performance and on economic, financial, competitive, legislative and other factors and any legal and regulatory restrictions on the payment of distributions and dividends to which they may be subject. Many of these factors are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations, that currently anticipated cost-savings and operating improvements will be realized or that future borrowings will be available to us in an amount sufficient to enable us to satisfy our obligations under our indebtedness or to fund our other needs. To satisfy our obligations under our indebtedness and to fund planned capital expenditures, we must continue to execute our business strategy. If we are unable to do so, we may need to reduce or delay our planned capital expenditures or refinance all or a portion of our indebtedness on or before maturity. Significant delays in our planned capital expenditures may materially and adversely affect our future revenue prospects. In addition, we cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all.

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

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

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We own studio and office facilities and also lease certain facilities in the ordinary course of business. Our worldwide headquarters are currently located at 75 Rockefeller Plaza, New York, NY 10019. On October 1, 2013, we entered into a lease for a new worldwide headquarters, which will be located at 1633 Broadway, New York, New York 10019. The initial term of the lease for our new headquarters runs for approximately 16 years (i.e., from on or about January 1, 2014 to July 31, 2029). The lease also includes a single option for us to extend the term for either five years or 10 years. In addition, under certain conditions, we have the ability to lease additional space in the building and have a right of first refusal with regard to certain additional space. We also have a long-term lease ending on December 31, 2019, for office space in a building located at 3400 West Olive Avenue, Burbank, California 91505, used primarily by our Recorded Music business, and another lease ending on June 30, 2017 for office space at 1290 Avenue of the Americas, New York, New York 10104, used primarily by our Recorded Music business. We intend to consolidate employees currently located at 75 Rockefeller Plaza and 1290 Avenue of the Americas into our new worldwide headquarters space at 1633 Broadway. We also have a five-year lease ending on September 30, 2017 for office space at 10585 Santa Monica Boulevard, Los Angeles, California 90025, used primarily by our Music Publishing business. We also own other property and lease facilities elsewhere throughout the world as necessary to operate our businesses. We consider our properties adequate for our current needs.

ITEM 3. LEGAL PROCEEDINGS

Litigation

Pricing of Digital Music Downloads

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

Upon remand to the District Court, all defendants, including the Company, filed a renewed motion to dismiss challenging, among other things, plaintiffs state law claims and standing to bring certain claims. The renewed motion was based mainly on arguments made in defendants original motion to dismiss, but not addressed by the District Court. On July 18, 2011, the District Court granted defendants motion in part, and denied it in part. Notably, all claims on behalf of the CD-purchaser class were dismissed with prejudice. However, a wide variety of state and federal claims remain, for the class of Internet Music purchasers. The parties have filed amended pleadings complying with the court s order, and the case is currently in discovery. We intend to defend against these lawsuits vigorously, but are unable to predict the outcome of these suits. Regardless of the merits of the claims, this and any related litigation could continue to be costly, and divert the time and resources of management. The potential outcomes of these claims that are reasonably possible cannot be determined at this time and an estimate of the reasonably possible loss or range of loss cannot presently be made.

Music Download Putative Class Action Suits

Five putative class action lawsuits have been filed against us in Federal Court in the Northern District of California between February 2, 2012 and March 10, 2012. The lawsuits, which were brought by various recording artists, all allege that we have improperly calculated the royalties due to them for certain digital music sales under the terms of their recording contracts. The named plaintiffs purport to raise these claims on their own behalf and, as a putative class action, on behalf of other similarly situated artists. Plaintiffs base their claims on a previous ruling that held another recorded music company had breached the specific recording contracts at issue in that case through its payment of royalties for music downloads and ringtones. In the wake of that ruling, a number of recording artists have initiated suits seeking similar relief against all of the major record companies, including us. Plaintiffs seek to have the interpretation of the contracts in that prior case applied to their different and separate contracts.

On April 10, 2012, we filed a motion to dismiss various claims in one of the lawsuits, with the intention of filing similar motions in the remaining suits, on the various applicable response dates. Meanwhile, certain plaintiffs counsel moved to be appointed as interim lead counsel, and other plaintiffs counsel moved to consolidate the various actions. In a June 1, 2012 Order, the court consolidated the cases and appointed interim co-lead class counsel. Plaintiffs filed a consolidated, master complaint on August 21, 2012. All deadlines have been stayed to allow for settlement of this dispute, with the next status conference set for December 19, 2013. If a settlement was not reached by that date and if the parties agreed that further settlement discussions would be fruitful, the parties were given the option to file a joint statement/stipulation seeking additional time for further settlement negotiations. In the alternative, the parties were to file a joint statement/stipulation with the Court alerting the Court to the fact that settlement could not be reached and resetting a litigation schedule. On December 6, 2013, the parties filed a joint statement/stipulation seeking additional time for further settlement negotiations, which is expected to be ruled on during the December 19, 2013 case management conference. Settlement discussions are ongoing. 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. Based on an evaluation of potential outcomes of these claims that are reasonably possible and an estimate of the reasonably possible loss or range of loss possible, we have recorded what we believe is an appropriate reserve related to these cases, which amount is not material.

Other Matters

In addition to the matters discussed above, we are 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, we establish an accrual. In none of the currently pending proceedings is the amount of accrual material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued cannot be made at this time due to various factors typical in contested proceedings, including (1) the results of ongoing discovery; (2) uncertain damage theories and demands; (3) a less than complete factual record; (4) uncertainty concerning legal theories and their resolution by courts or regulators; and (5) the unpredictable nature of the opposing party and its demands. However, we cannot predict with certainty the outcome of any litigation or the potential for future litigation. As such, we continuously monitor these proceedings as they develop and adjust any accrual or disclosure as needed. Regardless of the outcome, litigation could have an adverse impact on us, including our brand value, because of defense costs, diversion of management resources and other factors and it could have a material effect on our results of operations for a given reporting period.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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PART II

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

There is no established public trading market for any class of our common equity. As of December 12, 2013, there were 1,055 shares of our common stock outstanding. Affiliates of Access Industries, Inc. currently own 100% of our common stock.

Dividend Policy

We did not pay any cash dividends to our stockholders in the fiscal years ended September 30, 2013 and September 30, 2012 or the twelve months ended September 30, 2011. Any future determination to pay dividends will be at the discretion of our Board of Directors and will depend on, among other things, our results of operations, cash requirements, financial condition, contractual restrictions and other factors our Board of Directors may deem relevant.

Our ability to pay dividends is restricted by covenants in the indentures governing our notes and in the credit agreements for our Term Loan Facility and the Revolving Credit Facility. See Management s Discussion and Analysis of Financial Condition and Results of Operations Financial Condition and Liquidity Liquidity.

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ITEM 6. SELECTED FINANCIAL DATA

Our summary balance sheet data as of September 30, 2013 (Successor) and 2012 (Successor), and the statement of operations and other data for the fiscal year ended September 30, 2013 (Successor), the fiscal year ended September 30, 2012 (Successor), for the period from July 20, 2011 to September 30, 2011 (Successor) and for the period from October 1, 2010 to July 19, 2011 (Predecessor) have been derived from our audited financial statements included in this annual report on Form 10-K and should be read in conjunction with the audited financial statements and other financial information presented elsewhere herein. The selected financial information set forth below for all other periods has been derived from our audited financial statements that are not included in this annual report on Form 10-K.

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

	Successor			Predecessor		
	Year Ended September 30, 2013	Year Ended September 30, 2012	From July 20, 2011 through September 30, 2011	From October 1, 2010 through July 19, 2011	Year Ended September 30, 2010	Year Ended September 30, 2009
Statement of Operations Data:						
Revenues (1)	$ 2,871	$ 2,780	$ 556	$ 2,311	$ 2,988	$ 3,205
Net loss attributable to Warner Music Group Corp. (2)(3)	(198)	(112)	(31)	(174)	(143)	(100)
Diluted loss per common share (4)				(1.15)	(0.96)	(0.67)
Dividends per common share						
Balance Sheet Data (at period end):						
Cash and equivalents	$ 155	$ 302	$ 154		$ 439	$ 384
Total assets	6,252	5,278	5,380		3,811	4,063
Total debt (including current portion of long-term debt)	2,867	2,206	2,217		1,945	1,939
Warner Music Group Corp. equity (deficit)	726	927	1,065		(265)	(143)
Cash Flow Data:						
Cash flows provided by (used in):						
Operating activities	$ 159	$ 209	$ (64)	$ 12	$ 150	$ 237
Investing activities	(808)	(58)	(1,292)	(155)	(85)	82
Financing activities	511	(3)	1,199	5	(3)	(346)
Capital expenditures	(34)	(32)	(11)	(37)	(51)	(27)

(1) Revenues for the fiscal years ended September 30, 2010 and September 30, 2009 include $5 million and $25 million, respectively, from an agreement reached by the U.S. recorded music and music publishing industries for payment of mechanical royalties which were accrued by U.S. record companies in prior years.

(2) Net loss attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2013 includes a transaction fee under the Management Agreement of $11 million related to the Acquisition, $22 million of restructuring charges, and $38 million of professional fees and integration costs. Net loss attributable to Warner Music Group Corp. for the period from July 20, 2011 through September 30, 2011 and for the period from October 1, 2010 through July 19, 2011 include $10 million and $43 million of transaction costs, respectively, in connection with the Merger.

(3) Net loss attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2013 includes severance charges of $11 million resulting from actions to reorganize the Company s record labels. Net loss attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2012, for the period from July 20, 2011 through September 30, 2011, for the period from October 1, 2010 through July 19, 2011, for the fiscal year ended September 30, 2010 and for the fiscal year ended September 30, 2009 includes severance charges of $42 million, $9 million, $29 million, $54 million and $23 million, respectively, resulting from actions to align the Company s cost structure with industry trends.

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

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our results of operations and financial condition with the audited financial statements included elsewhere in this Annual Report on Form 10-K for the fiscal year ended September 30, 2013 (the Annual Report).

SAFE HARBOR STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Annual Report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this Annual Report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected costs, cost savings, industry trends and plans and objectives of management for future operations, are forward-looking statements. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, estimate, anticipate, believe or continue or the negative thereof or variations thereon or similar te
Such statements include, among others, statements regarding our ability to develop talent and attract future talent, our ability to reduce future capital expenditures, our ability to monetize our music-based content, including through new distribution channels and formats to capitalize on the growth areas of the music industry, our ability to effectively deploy our capital, the development of digital music and the effect of digital distribution channels on our business, including whether we will be able to achieve higher margins from digital sales, the success of strategic actions (including the acquisition of PLG) we are taking to accelerate our transformation as we redefine our role in the music industry, the effectiveness of our ongoing efforts to reduce overhead expenditures and manage our variable and fixed cost structure and our ability to generate expected cost savings from such efforts, including expected cost savings and other synergies from our acquisition of PLG, our success in limiting piracy, our ability to compete in the highly competitive markets in which we operate, the growth of the music industry and the effect of our and the music industry s efforts to combat piracy on the industry, our intention to pay dividends or repurchase our outstanding notes in open market purchases, privately or otherwise, the impact on us of potential strategic transactions, the impact on the competitive landscape of the music industry from the sale of EMI s recorded music and music publishing businesses, our ability to fund our future capital needs and the effect of litigation on us. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct.

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

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

the diversity and quality of our album releases;

the impact of legitimate channels for digital distribution of our creative content;

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

our involvement in intellectual property litigation;

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

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

the impact of heightened and intensive competition in the recorded music and music publishing businesses and our inability to execute our business strategy;

failure to realize expected synergies and other benefits contemplated by the Acquisition;

disruption from the Acquisition and the integration of Parlophone Label Group making it more difficult to maintain certain strategic relationships and distracting management s focus on the business;

risks relating to recent or future ratings agency actions or downgrades as a result of the Acquisition, or any associated financing;

risks associated with our non-U.S. operations, including limited legal protections of our intellectual property rights and restrictions on the repatriation of capital;

significant fluctuations in our operations and cash flows from period to period;

our inability to compete successfully in the highly competitive markets in which we operate;

further consolidation of our industry and its impact on the competitive landscape of the music industry, specifically the acquisition of EMI s recorded music business by Universal Music Group and the acquisition of EMI s music publishing business by a consortium led by Sony Corporation of America;

trends, developments or other events in some foreign countries in which we operate;

local economic conditions in the countries in which we operate;

our failure to attract and retain our executive officers and other key personnel;

the impact of rate regulations on our Recorded Music and Music Publishing businesses;

the impact of rates on other income streams that may be set by arbitration proceedings on our business;

an impairment in the carrying value of goodwill or other intangible and long-lived assets;

unfavorable currency exchange rate fluctuations;

our failure to have full control and ability to direct the operations we conduct through joint ventures;

legislation limiting the terms by which an individual can be bound under a personal services contract;

a potential loss of catalog if it is determined that recording artists have a right to recapture rights in their recordings under the U.S. Copyright Act;

trends that affect the end uses of our musical compositions (which include uses in broadcast radio and television, film and advertising businesses);

the growth of other products that compete for the disposable income of consumers;

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- the impact of, and risks inherent in, acquisitions or business combinations;

- risks inherent to our outsourcing of IT infrastructure and certain finance and accounting functions;

- the fact that we have engaged in substantial restructuring activities in the past, and may need to implement further restructurings in the future and our restructuring efforts may not be successful or generate expected cost-savings, including expected cost savings and other synergies from our acquisition of PLG;

- the impact of our substantial leverage, including the increase associated with additional indebtedness incurred in connection with the Acquisition, on our ability to raise additional capital to fund our operations, on our ability to react to changes in the economy or our industry and on our ability to meet our obligations under our indebtedness;

- the ability to generate sufficient cash to service all of our indebtedness, and the risk that we may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful;

- the fact that our debt agreements contain restrictions that limit our flexibility in operating our business;

- our indebtedness levels, and the fact that we may be able to incur substantially more indebtedness which may increase the risks created by our substantial indebtedness;

- the significant amount of cash required to service our indebtedness and the ability to generate cash or refinance indebtedness as it becomes due depends on many factors, some of which are beyond our control;

- risks of downgrade, suspension or withdrawal of the rating assigned by a rating agency to us could impact our cost of capital;

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

- our reliance on one company as the primary supplier for the manufacturing, packaging and physical distribution of our products in the U.S. and Canada and part of Europe;

- risks related to evolving regulations concerning data privacy which might result in increased regulation and different industry standards;

- changes in law and government regulations; and

- risks related to other factors discussed under Risk Factors in this Annual Report.

There may be other factors not presently known to us or which we currently consider to be immaterial that could cause our actual results to differ materially from those projected in any forward-looking statements we make. You should read carefully the factors described in the Risk

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

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

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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. and its consolidated subsidiaries, except where otherwise indicated.

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

Overview. This section provides a general description of our business, as well as a discussion of factors that we believe are important in understanding our results of operations and financial condition and in anticipating future trends.

Results of operations. This section provides an analysis of our results of operations for the successor fiscal year ended September 30, 2013, the successor fiscal year ended September 30, 2012, the successor period from July 20, 2011 to September 30, 2011, and the predecessor period from October 1, 2010 to July 19, 2011. 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 successor fiscal year ended September 30, 2013, the successor fiscal year ended September 30, 2012, the successor period from July 20, 2011 to September 30, 2011 and the predecessor period from October 1, 2010 to July 19, 2011, as well as a discussion of our financial condition and liquidity as of September 30, 2013. The discussion of our financial condition and liquidity includes (i) a summary of our debt agreements and (ii) a summary of the key debt compliance measures under our debt agreements.

Market Risk Management. This section discusses how the Company monitors and manages exposure to potential gains and losses arising from changes in market rates and prices, such as interest rates, foreign currency exchange rates and changes in the market value of financial instruments.

Critical Accounting Policies. This section identifies those accounting policies that are considered important to the Company s results of operations and financial condition, require significant judgment and involve significant management estimates. The Company s significant accounting policies, including those considered to be critical accounting policies, are summarized in Note 3 to the accompanying consolidated financial statements.

Overall Operating Results

In accordance with United States Generally Accepted Accounting Principles (GAAP), we have separated our historical financial results for the period from July 20, 2011 to September 30, 2011 (Successor) and for the period from October 1, 2010 to July 19, 2011 (Predecessor). Successor and Predecessor periods are presented on different bases and are, therefore, not comparable. However, we have also combined results for the Successor and Predecessor periods for 2011 in the presentations below, and presented them as the results for the twelve months ended September 30, 2011 because, although such presentation is not in accordance with GAAP, we believe that it enables a meaningful presentation and comparison of results. The operating results for the twelve months ended September 30, 2011 have not been prepared on a pro-forma basis under applicable regulations and may not reflect the actual results we would have achieved absent the Merger and may not be predictive of future results of operations.

Recent Developments

Acquisition of the Parlophone Label Group

On February 6, 2013, the Company signed a definitive agreement to acquire Parlophone Label Group (PLG) from Universal Music Group, a division of Vivendi, for £487 million subject to a closing working capital adjustment, in an all-cash transaction (the Acquisition) pursuant to a Share Sale and Purchase Agreement (the PLG Agreement). On July 1, 2013, we completed the Acquisition. PLG includes a broad range of some of the world s best-known recordings and classic and contemporary artists spanning a wide array of musical genres. PLG is comprised of the historic Parlophone label and Chrysalis and Ensign labels in the UK, as well as EMI Classics and Virgin Classics, and EMI s recorded music operations in Belgium, Czech Republic, Denmark, France, Norway, Poland, Portugal, Slovakia, Spain and Sweden. PLG s artists include Air, Alain Souchon, Camille, Coldplay, Daft Punk, Danger Mouse, David Bowie, David Guetta, Deep Purple, Duran Duran, Eliza Doolittle, Gorillaz, Iron Maiden, Jean-Louis Aubert, Jethro Tull, Julien Clerc, Kylie Minogie, M. Pokora, Magic System, Pablo Alboran, Pink Floyd, Radiohead, Roxette, Tina Turner and Tinie Tempah, as well as many developing and up-and-coming artists. PLG s EMI Classics and Virgin Classics brand names were not included with the Acquisition. WMG has rebranded these businesses, respectively, as Warner Classics and Erato following the Acquisition.

Use of OIBDA

We evaluate our operating performance based on several factors, including our primary financial measure of operating income (loss) before non-cash depreciation of tangible assets and non-cash amortization of intangible assets (which we refer to as OIBDA). We consider OIBDA to be an important indicator of the operational strengths and performance of our businesses, including the ability to provide cash flows to service debt. However, a limitation of the use of OIBDA as a performance measure is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our businesses. Accordingly, OIBDA should be considered in addition to, not as a substitute for, operating income, net income (loss) attributable to Warner Music Group Corp. and other measures of financial performance reported in accordance with U.S. GAAP. In addition, our definition of OIBDA may differ from similarly titled measures used by other companies. A reconciliation of consolidated historical OIBDA to operating income and net income (loss) attributable to Warner Music Group Corp. is provided in our Results of Operations.

Use of Constant Currency

As exchange rates are an important factor in understanding period to period comparisons, we believe the presentation of results on a constant-currency basis in addition to reported results helps improve the ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant-currency information compares results between periods as if exchange rates had remained constant period over period. We use results on a constant-currency basis as one measure to evaluate our performance. We calculate constant currency by calculating prior-year results using current-year foreign currency exchange rates. We generally refer to such amounts calculated on a constant-currency basis as excluding the impact of foreign currency exchange rates. These results should be considered in addition to, not as a substitute for, results reported in accordance with GAAP. Results on a constant-currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not a measure of performance presented in accordance with GAAP.

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OVERVIEW

We are one of the world s major music-based content companies. We classify our business interests into two fundamental operations: Recorded Music and Music Publishing. A brief description of each of those operations is presented below.

Recorded Music Operations

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

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

Outside the U.S., our Recorded Music activities are conducted in more than 50 countries primarily through various subsidiaries, affiliates and non-affiliated licensees. Internationally we engage in the same activities as in the U.S.: 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 to unaffiliated third-party record labels the right to distribute our records. Our international artist services operations also include a network of concert promoters through which we provide resources to coordinate tours for our artists and other artists.

Our Recorded Music distribution operations include WEA Corp., which markets and sells music and video products to retailers and wholesale distributors in the U.S., ADA, which distributes the products of independent labels to retail and wholesale distributors in the U.S.; various distribution centers and ventures operated internationally, an 80% interest in Word, which specializes in the distribution of music products in the Christian retail marketplace, and our worldwide artist and label-services organization, including ADA Worldwide, which provides distribution services outside of the U.S. through a network of affiliated and non-affiliated distributors.

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

We have integrated the sale of digital content into all aspects of our Recorded Music and Music Publishing businesses including A&R, marketing, promotion and distribution. Our business development executives work closely with A&R departments to make sure that while a record is being made, digital assets are also created with all distribution channels in mind, including subscription services, social networking sites, online portals and music-centered destinations. We also work side by side with our mobile and online partners to test new concepts. We believe existing and new digital businesses will be a significant source of growth for at least the next several years and will provide new opportunities to successfully monetize our assets and create new revenue streams. The proportion of digital revenues attributed to each distribution channel varies by region and proportions may change as the roll out of new technologies continues. As an owner of musical content, we believe we are well positioned to take advantage of growth in digital distribution and emerging technologies to maximize the value of

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our assets. We are also diversifying our revenues beyond our traditional businesses by entering into expanded-rights deals with recording artists in order to partner with artists in other areas of their careers. Under these agreements, we provide services to and participate in artists activities outside the traditional recorded music business. We built artist services capabilities and platforms for exploiting this broader set of music-related rights and participating more broadly in the monetization of the artist brands we help create.

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

Recorded Music revenues are derived from four main sources:

Physical: the rightsholder receives revenues with respect to sales of physical products such as CDs, LPs and DVDs;

Digital: the rightsholder receives revenues with respect to digital download services, subscription services, online and mobile streaming, and mobile ringtones or ringback tones;

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 club, artist websites, merchandising, touring, concert promotion, ticketing and artist and brand management; and

Licensing: the rightsholder receives royalties or fees for the right to use the composition in combination with visual images such as in films or television programs, television commercials and videogames; the licensor receives royalties if the composition is performed publicly through broadcast of music on television, radio, cable and satellite, live performance at a concert or other venue, and performance of music in staged theatrical productions.

The principal costs associated with our Recorded Music operations are as follows:

Royalty costs and artist and repertoire costs the costs associated with (i) paying royalties to artists, producers, songwriters, other copyright holders and trade unions, (ii) signing and developing artists, (iii) creating master recordings in the studio and (iv) creating artwork for album covers and liner notes;

Product costs the costs to manufacture, package and distribute product to wholesale and retail distribution outlets, the costs to distribute products of independent labels to retail and wholesale distribution outlets, as well as those principal costs related to our artist services businesses;

Selling and marketing costs 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 costs the costs associated with general overhead and other administrative costs.

Music Publishing Operations

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

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

Publishing revenues are derived from five main sources:

- *Performance:* the licensor receives royalties if the composition is performed publicly through broadcast of music on television, radio, cable and satellite, live performance at a concert or other venue (*e.g.*, arena concerts, nightclubs), and performance of music in staged theatrical productions;

- *Mechanical:* the licensor receives royalties with respect to compositions embodied in recordings sold in any physical format or configuration such as CDs, LPs and DVDs;

- *Synchronization:* the licensor receives royalties or fees for the right to use the composition in combination with visual images such as in films or television programs, television commercials and videogames as well as from other uses such as in toys or novelty items and merchandise;

- *Digital:* the licensor receives royalties or fees with respect to digital download services, subscription services and other digital music services; and

- *Other:* the licensor receives royalties for use in printed sheet music.

The principal costs associated with our Music Publishing operations are as follows:

- *Artist and repertoire costs* the costs associated with (i) signing and developing songwriters and (ii) paying royalties to songwriters, co-publishers and other copyright holders in connection with income generated from the exploitation of their copyrighted works; and

- *General and administration costs* the costs associated with general overhead and other administrative costs.

Factors Affecting Results of Operations and Financial Condition

Market Factors

The industry began experiencing negative growth rates since 1999 on a global basis and the worldwide recorded music market has contracted considerably since then, which has adversely affected our operating results. While there are signs of industry stabilization, with IFPI reporting that global recorded music industry revenues grew 0.2% in 2012, the first time the industry grew year-over-year in 13 years, and, according to the RIAA, the estimated retail value of the U.S. recorded music industry declined by only 0.9% in 2012, a marked improvement versus a decade of steep declines prior to 2011, sales continued to fall in other countries and the industry continues to be impacted as a result of ongoing digital piracy and the transition from physical to digital sales in the recorded music business. Accordingly, the recorded music industry performance may continue to negatively impact our operating results. In addition, a declining recorded music industry could continue to have an adverse impact on portions of the music publishing business. This is because the music publishing business generates a portion of its revenues from mechanical royalties from the sale of music in CD and other physical recorded music formats.

LimeWire Settlement

In May 2011, the major record companies reached a global out-of-court settlement of copyright litigation against LimeWire. Under the terms of the settlement, the LimeWire defendants agreed to pay compensation to the record companies that brought the action, including us. In connection with this settlement, we recorded a $12 million benefit to general and administrative expenses in the consolidated statements of operation for the period ended July 19, 2011 (Predecessor). These amounts were recorded net of the estimated amounts payable to our artists in respect of royalties.

Share-Based Compensation

In connection with the Merger, the vesting of all outstanding unvested Predecessor options and certain restricted stock awards was accelerated immediately prior to closing. To the extent that such stock options had an exercise price less than $8.25 per share, the holders of such stock options were paid an amount in cash equal to $8.25 less the exercise price of the stock option and any applicable withholding. In addition, all outstanding restricted stock awards either became fully vested or were forfeited immediately prior to the closing; the awards that became fully vested were treated as a share of our common stock for all purposes under the Merger. As a result of the acceleration, Predecessor recorded an additional $14 million in share-based compensation expense for the period from October 1, 2010 to July 19, 2011 (Predecessor) within general and administrative expense.

Prior to the Merger, Predecessor modified certain restricted stock award agreements which resulted in incremental share-based compensation expense of $3 million recorded within general and administrative expense for the period from October 1, 2010 to July 19, 2011 (Predecessor).

Transaction Costs

In connection with the Merger, we incurred approximately $10 million and $43 million of transaction costs, primarily representing professional fees, during the period from July 20, 2011 to September 30, 2011 (Successor) and for the period from October 1, 2010 to July 19, 2011 (Predecessor), respectively. These amounts were recorded in the consolidated statements of operation within general and administrative expense.

Additional Targeted Savings

As of the completion of the Merger on July 20, 2011, we targeted cost savings over the next nine fiscal quarters following completion of the Merger of $50 million to $65 million based on identified cost-saving initiatives and opportunities, including targeted savings expected to be realized as a result of no longer having publicly traded equity, reduced expenses related to finance, legal and IT and reduced expenses related to certain planned corporate restructuring initiatives. The targeted cost-savings program was complete as of June 30, 2013, one quarter early, achieving savings in the high end of the estimated range.

EMI and PLG Related Costs

We incurred certain costs, primarily representing professional fees, related to our participation in a sales process which resulted in the sale of EMI s recorded music and music publishing businesses, including the subsequent review of the transactions by the U.S. Federal Trade Commission, the European Commission and other regulatory bodies, and the subsequent sale of Parlophone Label Group by Universal Music Group. Subsequent to the close of the Acquisition, we also incurred other integration and other nonrecurring costs related to the Acquisition. These costs amounted to approximately $38 million for the fiscal year ended September 30, 2013 and $14 million for the fiscal year ended September 30, 2012, and were recorded in the consolidated statements of operation within general and administrative expense.

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

In conjunction with the Acquisition, we undertook a plan to achieve cost savings (the Restructuring Plan), primarily through headcount reductions. The Restructuring Plan was approved by our CEO prior to the close of the Acquisition. Under the Restructuring Plan, we currently expect to record an aggregate of approximately $85 million in restructuring charges, currently estimated to be made up of employee-related costs of $61 million, real estate costs of $18 million and other costs of $6 million. A significant portion of these charges have resulted and will continue to result in cash expenditures. Employee-related costs include all cash compensation and other employee benefits paid to terminated employees. Contract termination costs include legal fees, early termination penalties, and other costs incurred to terminate a contract before the end of its term in connection with a restructuring event. Real estate costs include costs that will continue to be incurred without economic benefit to us, such as operating lease payments for office space no longer being used and moving costs incurred during relocation, costs incurred to close a facility and IT costs to rewire a new facility, among others. The $85 million does not include other integration and other nonrecurring costs related to the Acquisition currently estimated to be $77 million, which do not qualify as restructuring costs. Total restructuring costs of $22 million have been incurred in the year ended September 30, 2013 with respect to these actions, which consist entirely of employee-related costs. The remainder of the Restructuring Plan is expected to be completed by the end of fiscal 2015.

When completed, these actions are expected to result in cost synergies of approximately $70 million, primarily within selling, general and administrative expenses. We expect to realize the benefits of such synergies over the next 24 months. Although management currently believes such cost savings and other synergies will be realized following the Acquisition, there can be no assurance that these cost savings or any other synergies will be achieved in full.

Severance Charges

During the fiscal year ended September 30, 2013, we took actions to reorganize certain of our record labels. Such actions resulted in severance charges (unrelated to PLG) of $11 million. Actions to further align our cost structure with industry trends resulted in severance changes of $42 million, $9 million and $29 million during the fiscal year ended September 30, 2012, the period from July 20, 2011 to September 30, 2011 (Successor) and for the period from October 1, 2010 to July 19, 2011 (Predecessor), respectively.

Expanding Business Models to Offset Declines in Physical Sales

Digital Sales

A key part of our strategy to offset declines in physical sales is to expand digital sales. New digital models have enabled us to find additional ways to generate revenues from our music content. In the early stages of the transition from physical to digital sales, overall sales decreased as the increases in digital sales were not yet offsetting decreases in physical sales. While there are signs of industry stabilization, the industry continues to be impacted as a result of the transition to digital sales. Part of the reason for this gap is the shift in consumer purchasing patterns made possible from new digital models. In the digital space, consumers are now presented with the opportunity to not only purchase entire albums, but to unbundle albums and purchase only favorite tracks as single-track downloads. While to date, sales of online and mobile downloads have constituted the majority of our digital Recorded Music and Music Publishing revenue, that may change over time as new digital models, such as streaming and subscription services, continue to develop. While it is believed within the recorded music industry that growth in digital sales will re-establish a growth pattern for recorded music sales, the timing of the recovery cannot be established with accuracy, nor can it be determined how those changes will affect individual markets. We believe it is reasonable to expect that digital margins will generally be higher than physical margins as a result of the elimination of certain costs associated with physical products, such as manufacturing, distribution, inventory and return costs. Partially eroding that benefit are certain digital-specific variable costs and infrastructure investments necessary to produce, market and sell music in digital formats, as well as increases in mechanical copyright royalties payable to music publishers which apply in the digital space. As consumer purchasing patterns change over time and new digital models are launched, we may see fluctuations in contribution margin depending on the overall sales mix.

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Artist Services and Expanded-Rights Deals

We have also been seeking to expand our relationships with recording artists as another means to offset declines in physical revenues in Recorded Music. For example, we have been signing recording artists to expanded-rights deals for the last several years. Under these expanded-rights deals, we participate in the recording artist s revenue streams, other than from recorded music sales, such as live performances, merchandising and sponsorships. We believe that additional revenue from these revenue streams will help to offset declines in physical revenue over time. As we have generally signed newer artists to these deals, increased expanded-rights revenue from these deals is expected to come several years after these deals have been signed as the artists become more successful and are able to generate revenue other than from recorded music sales. Artist services and expanded-rights Recorded Music revenue, which includes revenue from expanded-rights deals as well as revenue from our artist services business, represented approximately 9% of our total revenue during the fiscal year ended September 30, 2013. Artist services and expanded-rights revenue will fluctuate from period to period depending upon touring schedules, among other things. We also believe that the strategy of entering into expanded-rights deals and continuing to develop our artist services business will contribute to Recorded Music growth over time. Margins for the various artist services and expanded-rights Recorded Music revenue streams can vary significantly. The overall impact on margins will, therefore, depend on the composition of the various revenue streams in any particular period. For instance, revenue from passive touring under our expanded-rights deals typically flows straight through to net income with little cost. Revenue from our management business and revenue from sponsorship and touring under expanded-rights deals are all high margin, while merchandise revenue under expanded-rights deals and concert promotion revenue from our concert promotion businesses tend to be lower margin than our traditional revenue streams from Recorded Music and Music Publishing.

The Merger

Pursuant to the Merger Agreement, on the Merger Closing Date, Merger Sub merged with and into the Company with the Company surviving as a wholly owned subsidiary of Parent.

On the Merger Closing Date, in connection with the Merger, each outstanding share of common stock of the Company (other than any shares owned by the Company or its wholly owned subsidiaries, or by Parent and its affiliates, or by any stockholders who were entitled to and who properly exercised appraisal rights under Delaware law, and shares of unvested restricted stock granted under the Company s equity plan) was cancelled and converted automatically into the right to receive the Merger Consideration.

Cash equity contributions totaling $1.1 billion from Parent, together with (i) the proceeds from the sale of (a) $150 million aggregate principal amount of 9.50% Senior Secured Notes due 2016 (the Second Tranche of Old Secured Notes) initially issued by WM Finance Corp., (the Initial OpCo Issuer), (b) $765 million aggregate principal amount of 11.50% Senior Notes due 2018 initially issued by the Initial OpCo Issuer, (the Unsecured WMG Notes) and (c) $150 million aggregate principal amount of 13.75% Senior Notes due 2019 (the Holdings Notes) initially issued by WM Holdings Finance Corp. (the Initial Holdings Issuer) and (ii) cash on hand at the Company, were used, among other things, to finance the aggregate Merger Consideration, to make payments in satisfaction of other equity-based interests in the Company under the Merger Agreement, to repay certain of the Company s existing indebtedness and to pay related transaction fees and expenses.

On the Merger Closing Date (i) Acquisition Corp. became the obligor under the Second Tranche of Old Secured Notes and the Unsecured WMG Notes as a result of the merger of Initial OpCo Issuer with and into Acquisition Corp. (the OpCo Merger) and (ii) Holdings became the obligor under the Holdings Notes as a result of the merger of Initial Holdings Issuer with and into Holdings (the Holdings Merger). On the Merger Closing Date, the Company also entered into, but did not draw under, the Old Revolving Credit Facility. In addition, approximately $30 million of shares of common stock of the Company owed by Parent and its affiliates were forfeited immediately prior to the Merger.

In connection with the Merger, the Company also refinanced certain of its existing consolidated indebtedness, including (i) the repurchase and redemption by Holdings of its approximately $258 million in fully accreted principal amount outstanding 9.50% Senior Discount Notes due 2014 (the Old Holdings Notes), and the satisfaction and discharge of the related indenture and (ii) the repurchase and redemption by Acquisition Corp. of its $465 million in aggregate principal amount outstanding 7 3/8% Dollar-denominated Senior Subordinated Notes due 2014 and £100 million in aggregate principal amount of its outstanding 8 1/8% Sterling-denominated Senior Unsecured Subordinated Notes due 2014 (the Old Acquisition Corp. Notes and together with the Old Holdings Notes, the Old Unsecured Notes), and the satisfaction and discharge of the related indentures, and payment of related tender offer or call premiums and accrued interest on the Old Unsecured Notes.

Management Agreement

Upon completion of the Merger, the Company and Holdings entered into a management agreement with Access, dated as of the Merger Closing Date (the Management Agreement), pursuant to which Access will provide the Company and its subsidiaries with financial, investment banking, management, advisory and other services. Pursuant to the Management Agreement, the Company, or one or more of its subsidiaries, will pay Access a specified annual fee initially equal to the greater of (i) the sum of (x) a base amount of approximately $9 million and (y) 1.5% of the aggregate amount of Acquired EBITDA (as defined in the Management Agreement) as at such time or (ii) 1.5% of the EBITDA (as defined in the indenture governing the WMG Holdings Corp. 13.75% Senior Notes due 2019 as required by the Management Agreement) of the Company for the applicable fiscal year, plus expenses, and a specified transaction fee for certain types of transactions completed by Holdings or one or more of its subsidiaries, plus expenses. The amount of Acquired EBITDA at any time shall be equal to sum of the amounts of positive EBITDA of businesses, companies or operations acquired directly or indirectly by the Company from and after the completion of the Merger, each such amount of positive EBITDA as calculated (by Access in its sole discretion) for the four fiscal quarters most recently ended for which internal financial statements are available at the date of the pertinent acquisition. In fiscal 2013, the base amount for the annual fee due under the Management Agreement was increased from $6 million to approximately $9 million to reflect the aggregate amount of Acquired EBITDA, primarily associated with the acquisition of PLG. The Company also paid Access a transaction fee related to the Acquisition in fiscal 2013. The Annual Fee shall be calculated and payable as follows: (i) one-quarter of the Base Amount in effect on the first day of each fiscal quarter shall be paid on such date, in advance for the fiscal quarter then commencing and (ii) following the completion of every full fiscal year after the date hereof, once internal financial statements for such fiscal year are available, the Company and Access shall jointly calculate the EBITDA of the Company for such fiscal year and the Company shall pay to Access the amount, if any, by which 1.5% of such EBITDA exceeds the sum of the amounts paid in respect of such fiscal year pursuant to clause (i) above. The Company and Holdings agreed to indemnify Access and certain of its affiliates against all liabilities arising out of performance of the Management Agreement.

The Company recorded expense of $19 million for the fiscal year ended September 30, 2013 (Successor), $8 million for the fiscal year ended September 30, 2012 (Successor) and $1 million for the period from July 20, 2011 to September 30, 2011 (Successor) related to the Management Agreement with Access, and such amounts have been included as a component of selling, general and administrative expense in the accompanying statement of operations.

Such costs incurred by the Company were approximately $8 million for the fiscal years ended September 30, 2013 and September 30, 2012, which includes the annual fee and reimbursement of certain expenses in connection with the Management Agreement, but excludes $2 million of expenses reimbursed related to certain consultants with full time roles at the Company for both the fiscal year ended September 30, 2013 and the fiscal year ended September 30, 2012. For the fiscal year ended September 30, 2013, we also incurred an $11 million transaction fee related to the Acquisition.

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RESULTS OF OPERATIONS

Fiscal Year Ended September 30, 2013 Compared with Fiscal Year Ended September 30, 2012 and Twelve Months Ended September 30, 2011

The following table sets forth our results of operations as reported in our condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP). GAAP requires that we separately present our Predecessor and Successor periods results. Management believes reviewing our operating results for the twelve months ended September 30, 2011 by combining the results of the Predecessor and Successor periods is more useful in identifying any trends in, or reaching conclusions regarding, our overall operating performance. Accordingly, the table below presents the non-GAAP combined results for the twelve months ended September 30, 2011, which is also the period we compare when computing percentage change from prior period, as we believe this presentation provides the most meaningful basis for comparison of our results and it is how management reviews operating performance. The combined operating results may not reflect the actual results we would have achieved had the Merger closed prior to July 20, 2011 and may not be predictive of future results of operations.

Consolidated Historical Results

Revenues

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

	Successor			Predecessor					
	For the Fiscal Year Ended September 30, 2013	For the Fiscal Year Ended September 30, 2012	From July 20, 2011 through September 30, 2011	From October 1, 2010 through July 19, 2011	For the Combined Twelve Months ended September 30, 2011	*2013 vs. 2012* $ Change	*2013 vs. 2012* % Change	*2012 vs. 2011* $ Change	*2012 vs. 2011* % Change
Revenue by Type									
Physical	$ 900	$ 970	$ 194	$ 841	$ 1,035	$ (70)	-7%	$ (65)	-6%
Digital	997	865	147	622	769	132	15%	96	12%
Total Physical and Digital	1,897	1,835	341	1,463	1,804	62	3%	31	2%
Artist services and expanded-rights	270	244	75	235	310	26	11%	(66)	-21%
Licensing	222	202	41	192	233	20	10%	(31)	-13%
Total Recorded Music	**2,389**	**2,281**	**457**	**1,890**	**2,347**	**108**	**5%**	**(66)**	**-3%**
Performance	197	200	41	172	213	(3)	-2%	(13)	-6%
Mechanical	113	128	23	118	141	(15)	-12%	(13)	-9%
Synchronization	98	111	21	91	112	(13)	-12%	(1)	-1%
Digital	83	66	15	44	59	17	26%	7	12%
Other	12	13	3	11	14	(1)	-8%	(1)	-7%
Total Music Publishing	**503**	**518**	**103**	**436**	**539**	**(15)**	**-3%**	**(21)**	**-4%**
Intersegment eliminations	(21)	(19)	(4)	(15)	(19)	(2)	-11%		
Total Revenue	**$ 2,871**	**$ 2,780**	**$ 556**	**$ 2,311**	**$ 2,867**	**$ 91**	**3%**	**$ (87)**	**-3%**
Revenue by Geographical Location									
U.S. Recorded Music	973	915	176	785	$ 961	$ 58	6%	$ (46)	-5%
U.S. Music Publishing	188	198	40	151	191	(10)	-5%	7	4%
Total U.S.	**1,161**	**1,113**	**216**	**936**	**1,152**	**48**	**4%**	**(39)**	**-3%**
International Recorded Music	1,416	1,366	281	1,105	1,386	50	4%	(20)	-1%
International Music Publishing	315	320	63	285	348	(5)	-2%	(28)	-8%
Total International	**1,731**	**1,686**	**344**	**1,390**	**1,734**	**45**	**3%**	**(48)**	**-3%**

Intersegment eliminations	(21)	(19)	(4)	(15)	(19)	(2)	-11%		
Total Revenue	**$ 2,871**	**$ 2,780**	**$ 556**	**$ 2,311**	**$ 2,867**	**$ 91**	**3%**	**$ (87)**	**-3%**

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Total Revenue

2013 vs. 2012

Total revenues increased by $91 million, or 3%, to $2.871 billion for the fiscal year ended September 30, 2013 from $2.780 billion for the fiscal year ended September 30, 2012. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 83% and 17% of revenues for the fiscal year ended September 30, 2013 and 81% and 19% of total revenues for the fiscal year ended September 30, 2012, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 40% and 60% of total revenues for both the fiscal year ended September 30, 2013 and September 30, 2012. Excluding the unfavorable impact of foreign currency exchange rates, total revenues increased by $136 million, or 5%.

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

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

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

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

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

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

2012 vs. 2011

Total revenues decreased by $87 million, or 3%, to $2.780 billion for the fiscal year ended September 30, 2012 from $2.867 billion for the twelve months ended September 30, 2011. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues comprised 81% and 19% of total revenues, respectively, for both the fiscal year ended September 30, 2012 and the twelve months ended September 30, 2011. U.S. and international revenues comprised 40% and 60% of total revenues, respectively, for both the fiscal year ended September 30, 2012 and the twelve months ended September 30, 2011. Excluding the unfavorable impact of foreign currency exchange rates, total revenues decreased by $23 million, or 1%.

Total digital revenues, after intersegment eliminations, increased by $105 million, or 13%, to $925 million for the fiscal year ended September 30, 2012 from $820 million for the twelve months ended September 30, 2011. Total digital revenue represented 33% and 29% of consolidated revenues for the fiscal year ended September 30, 2012 and for the twelve months ended September 30, 2011, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2012 were comprised of U.S. revenues of $526 million, or 56% of total digital revenues, and international revenues of $405 million, or 44% of total digital revenues. Prior to intersegment eliminations, total digital revenues for the twelve months ended September 30, 2011 were comprised of U.S. revenues of $471 million, or 57% of total digital revenues, and international revenues of $357 million, or 43% of total digital revenues. Excluding the unfavorable impact of foreign currency exchange rates, total digital revenues increased by $114 million, or 14%.

Recorded Music revenues decreased by $66 million, or 3%, to $2.281 billion for the fiscal year ended September 30, 2012 from $2.347 billion for the twelve months ended September 30, 2011. U.S. Recorded Music revenues were $915 million and $961 million, or 40% and 41% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2012 and for the twelve months ended September 30, 2011, respectively. International Recorded Music revenues were $1.366 billion and $1.386 billion, or 60% and 59% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2012 and the twelve months ended September 30, 2011, respectively. Excluding the unfavorable impact of foreign currency exchange rates, total Recorded Music revenues decreased by $20 million, or 1%.

This performance reflected the ongoing impact of the transition from physical to digital sales offset by the current-year success of Michael Bublé s Christmas album and key local releases in Japan. In addition, growth in digital revenues more than offset physical revenue declines in our Recorded Music business. Artist services and expanded-rights revenues decreased primarily due to a decline in concert promotion revenue resulting from a strong touring schedule in France in the prior period which was not duplicated in the current year. Licensing revenues decreased due primarily to timing. The increase in digital revenues was driven by an increase in revenue from streaming and subscription services of $58 million, growth in digital download revenue of $70 million mainly in the U.S., Latin America and certain European territories, partially offset by a $32 million decline in global ringtone revenue.

Music Publishing revenues decreased by $21 million, or 4%, to $518 million for the fiscal year ended September 30, 2012 from $539 million for the twelve months ended September 30, 2011. U.S. Music Publishing revenues were $198 million and $191 million, or 38% and 35% of Music Publishing revenues for the fiscal year ended September 30, 2012 and for the twelve months ended September 30, 2011, respectively. International Music Publishing revenues were $320 million and $348 million, or 62% and 65% of Music Publishing revenues for the fiscal year ended September 30, 2012 and for the twelve months ended September 30, 2011, respectively. Excluding the unfavorable impact of foreign currency exchange rates, total Music Publishing revenues decreased by $3 million, or 1%.

The decrease in Music Publishing revenue was driven primarily by decreases in mechanical revenue and performance revenue, partially offset by an increase in digital revenue. The decrease in mechanical revenue reflected the ongoing impact of the transition from physical to digital sales in the recorded music industry and the decision to exit certain lower-margin administration deals. The decrease in performance revenue was driven primarily by a reduction in U.S. radio license fees and a market decline in the U.K., partially offset by a stronger advertising market, strong chart positions and recent acquisitions. The increase in digital revenue was driven by the growth of global digital downloads of $7 million and the continued success of streaming services of $4 million offset by declines of $4 million in global ringtone revenue.

Revenue by Geographical Location

2013 vs. 2012

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

International revenues increased by $45 million, or 3%, to $1.731 billion for the fiscal year ended September 30, 2013 from $1.686 billion for the fiscal year ended September 30, 2012. Excluding the impact of the Acquisition, International Recorded Music revenues decreased $9 million. Excluding the impact of the Acquisition, International Recorded Music physical sales decreased $84 million primarily due to comparatively strong performance of key local releases in Japan in the prior year. Excluding the impact of the Acquisition, International Recorded Music digital revenues increased $67 million as a result of growth in digital download revenue of $30 million and in streaming and subscription service revenue of $43 million, and was mainly attributable to continued success from current-period releases including Bruno Mars Unorthodox Jukebox and current-period releases under third party distribution deals with strong digital demand, partially offset by a decline in mobile revenue of

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$6 million. Excluding the impact of the Acquisition, artist services and expanded-rights revenue increased $7 million, primarily due to the timing of tours in Japan which increased $6 million and increased merchandise sales on managed tours in the U.K. of $2 million. International Music Publishing revenues decreased $5 million primarily due to declines in mechanical revenue of $9 million as a result of the ongoing impact of the transition from physical to digital sales in the music industry and performance revenue of $3 million. Partially offsetting these declines was the growth in International Music Publishing digital revenue of $8 million as a result of the continued growth in streaming and subscription service revenue of $6 million and digital download revenue of $1 million. Excluding the unfavorable impact of foreign currency exchange rates, total international revenues increased $90 million, or 6%.

2012 vs. 2011

U.S. revenues decreased by $39 million, or 3%, to $1.113 billion for the fiscal year ended September 30, 2012 from $1.152 billion for the twelve months ended September 30, 2011. The overall decline in the U.S. Recorded Music business primarily reflected the ongoing transition from physical sales to digital sales, with a decline of $56 million in physical revenue and lower artist services and expanded-rights revenues of $18 million driven primarily by lower merchandise revenue of $7 million and ticketing revenue of $12 million. The decrease was partially offset by the strong performance of Michael Bublé s Christmas album and an increase in digital revenue of $56 million driven by growth in digital downloads of $34 million and the continued success of streaming services of $34 million, partially offset by the continued decline in mobile revenue of $12 million. The overall increase in the U.S. Music Publishing business was primarily the result of the timing of collections, partially offset by mechanical declines exceeding digital revenue growth and a reduction in U.S. radio license fees.

International revenues decreased by $48 million, or 3%, to $1.686 billion for the fiscal year ended September 30, 2012 from $1.734 billion for the twelve months ended September 30, 2011. Excluding the unfavorable impact of foreign currency exchange, international revenues increased $16 million, or 1%, for the fiscal year ended September 30, 2012. This performance reflected the current-year success of Michael Bublé s Christmas album and key local releases in Japan. An increase in digital revenue of $48 million, primarily as a result of growth in digital downloads of $42 million and the continued success of streaming services of $27 million, was partially offset by the contracting demand for physical product, with a decline of $10 million in physical revenue and lower artist services and expanded-rights revenues of $48 million driven primarily by declines in concert promotion revenue of $53 million as compared to results from the strong touring schedule in France in the prior period. Revenue growth in Japan of $55 million, Germany of $7 million and Italy of $8 million was partially offset by weakness in France and the U.K., which declined by $92 million and $29 million, respectively.

See *Business Segment Results* presented hereinafter for a discussion of revenue by type for each business segment.

Cost of revenues

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

	Successor			Predecessor					
	For the Fiscal Year Ended September 30, 2013	For the Fiscal Year Ended September 30, 2012	From July 20, 2011 through September 30, 2011	From October 1, 2010 through July 19, 2011	For the Combined Twelve Months ended September 30, 2011	*2013 vs. 2012* $ Change	*2013 vs. 2012* % Change	*2012 vs. 2011* $ Change	*2012 vs. 2011* % Change
Artist and repertoire costs	$ 956	$ 969	$ 168	$ 834	$ 1,002	$ (13)	-1%	$ (33)	-3%
Product costs	543	490	120	427	547	53	11%	(57)	-10%
Total cost of revenues	**$ 1,499**	**$ 1,459**	**$ 288**	**$ 1,261**	**$ 1,549**	**$ 40**	**3%**	**$ (90)**	**-6%**

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2013 vs. 2012

Our cost of revenues increased by $40 million, or 3%, to $1.499 billion for the fiscal year ended September 30, 2013 from $1.459 billion for the fiscal year ended September 30, 2012. Expressed as a percentage of revenues, cost of revenues remained flat at 52% for both the fiscal year ended September 30, 2013 and September 30, 2012.

Artist and repertoire costs decreased by $13 million, or 1%, to $956 million for the fiscal year ended September 30, 2013 from $969 million for the fiscal year ended September 30, 2012. The decrease in artist and repertoire costs was driven by a shift towards higher margin Music Publishing deals, which more than offset an increase in revenue in the current period and the cost-recovery benefit of $8 million in the prior period. Artist and repertoire costs as a percentage of revenues decreased to 33% for the fiscal year ended September 30, 2013 from 35% for the fiscal year ended September 30, 2012, due to a shift towards higher margin deals in Music Publishing.

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

2012 vs. 2011

Cost of revenues decreased by $90 million, or 6%, to $1.459 billion for the fiscal year ended September 30, 2012 from $1.549 billion for the twelve months ended September 30, 2011. Expressed as a percent of revenues, cost of revenues was 52% and 54% for the fiscal year ended September 30, 2012 and the twelve months ended September 30, 2011, respectively.

Artist and repertoire costs decreased by $33 million, or 3%, to $969 million for the fiscal year ended September 30, 2012 from $1.002 billion for the twelve months ended September 30, 2011. The decrease in artist and repertoire costs was driven by the decrease in revenue, the timing of our artist and repertoire spend and a cost-recovery benefit related to the early termination of an artist contract of $8 million. Artist and repertoire costs as a percentage of revenues remained flat at 35% for the fiscal year ended September 30, 2012 and for the twelve months ended September 30, 2011.

Product costs decreased by $57 million, or 10%, to $490 million for the fiscal year ended September 30, 2012 from $547 million for the twelve months ended September 30, 2011. The decrease in product costs was primarily a result of a decrease in physical revenue in the current period and a decrease in artist services and expanded-rights revenue mainly due to the timing of our European concert promotion businesses. Costs associated with our artist services and expanded-rights business are primarily recorded as a component of product costs. Concert promotion tends to yield lower margins than our physical and digital revenue. Product costs as a percentage of revenues decreased to 18% for the fiscal year ended September 30, 2012 from 19% for the twelve months ended September 30, 2011.

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Selling, general and administrative expenses

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

	Successor			Predecessor					
	For the Fiscal Year Ended September 30, 2013	For the Fiscal Year Ended September 30, 2012	From July 20, 2011 through September 30, 2011	From October 1, 2010 through July 19, 2011	For the Combined Twelve Months ended September 30, 2011	2013 vs. 2012 $ Change	2013 vs. 2012 % Change	2012 vs. 2011 $ Change	2012 vs. 2011 % Change
General and administrative expense (1)	$ 609	$ 574	$ 106	$ 493	$ 599	$ 35	6%	$ (25)	-4%
Selling and marketing expense	422	390	78	335	413	32	8%	(23)	-6%
Distribution expense	59	55	12	46	58	4	7%	(3)	-5%
Total selling, general and administrative expense	**$ 1,090**	**$ 1,019**	**$ 196**	**$ 874**	**$ 1,070**	**$ 71**	**7%**	**$ (51)**	**-5%**

(1) Includes depreciation expense of $51 million, $51 million and $42 million for the fiscal year ended September 30, 2013, the fiscal year ended September 30, 2012 and the twelve months ended September 30, 2011, respectively.

2013 vs. 2012

Total selling, general and administrative expense increased by $71 million, or 7%, to $1.090 billion for the fiscal year ended September 30, 2013 from $1.019 billion for the fiscal year ended September 30, 2012. Expressed as a percentage of revenues, selling, general and administrative expenses increased to 38% for the fiscal year ended September 30, 2013 from 37% for the fiscal year ended September 30, 2012.

General and administrative expenses increased by $35 million, or 6%, to $609 million for the fiscal year ended September 30, 2013 from $574 million for the fiscal year ended September 30, 2012. The increase in general and administrative expense was due to $19 million of share-based compensation expense, $11 million of a transaction fee under the Management Agreement related to the Acquisition, $22 million of restructuring expense, and a $24 million increase in professional fees and integration costs associated with the Acquisition compared to the prior-period. This was partially offset by lower variable compensation and $31 million lower severance expense unrelated to the Acquisition. The current period results do not yet reflect the expected synergies from the Acquisition, which may not be realized in full. Expressed as a percentage of revenues, general and administrative expenses remained flat at 21% for the fiscal year ended September 30, 2013 and the fiscal year ended September 30, 2012.

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

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

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2012 vs. 2011

Selling, general and administrative expense decreased by $51 million to $1.019 billion for the fiscal year ended September 30, 2012 from $1.070 billion for the twelve months ended September 30, 2011. Expressed as a percent of revenues, selling, general and administrative expense remained flat at 37% for the fiscal year ended September 30, 2012 and the twelve months ended September 30, 2011.

General and administrative expense decreased by $25 million, or 4%, to $574 million for the fiscal year ended September 30, 2012 from $599 million for the twelve months ended September 30, 2011. The decrease in general and administrative expense was driven by merger transaction costs including advisory, accounting, legal and other professional fees of $53 million in the prior period incurred in connection with the consummation of the Merger, the realization of cost savings from previously announced management initiatives and the prior period year charges for share-based compensation expense of $24 million partially offset by an increase in depreciation expense resulting from recently completed capital projects and the revaluation of depreciable assets recorded in connection with the Merger, professional fees associated with our Management Agreement, costs related to the sale of EMI, an increase in variable compensation expense and the prior period year benefit for the LimeWire settlement. Expressed as a percentage of revenues, general and administrative expenses remained flat at 21% for the fiscal year ended September 30, 2012 and the twelve months ended September 30, 2011.

Selling and marketing expense decreased by $23 million, or 6%, to $390 million for the fiscal year ended September 30, 2012 from $413 million for the twelve months ended September 30, 2011. The decrease in selling and marketing expense was primarily related to lower variable marketing expense as a result of our effort to better align spending on selling and marketing expense with revenues earned. Selling and marketing expense as a percentage of revenues remained flat at 14% for the fiscal year ended September 30, 2012 and for the twelve months ended September 30, 2011.

Distribution expense decreased by $3 million, or 5%, to $55 million for the fiscal year ended September 30, 2012 from $58 million for the twelve months ended September 30, 2011. Distribution expense remained flat as a percentage of revenues at 2% for the fiscal year ended September 30, 2012 and for the twelve months ended September 30, 2011.

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

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

	Successor			Predecessor					
	For the Year Ended September 30, 2013	**For the Year Ended September 30, 2012**	**From July 20, 2011 through September 30, 2011**	**From October 1, 2010 through July 19, 2011**	**For the Combined Twelve Months ended September 30, 2011**	***2013 vs. 2012*** **$ Change**	**% Change**	***2012 vs. 2011*** **$ Change**	**% Change**
OIBDA	$ 333	$ 353	$ 81	$ 209	$ 290	$ (20)	-6%	$ 63	22%
Depreciation expense	(51)	(51)	(9)	(33)	(42)		%	(9)	-21%
Amortization expense	(207)	(193)	(38)	(178)	(216)	(14)	-7%	23	11%
Operating income (loss)	**75**	**109**	**34**	**(2)**	**32**	**(34)**	-31%	**77**	**%**
Loss on extinguishment of debt	(85)					(85)	%		%
Interest expense, net	(203)	(225)	(62)	(151)	(213)	22	10%	(12)	-6%
Other (expense) income, net	(12)	8		5	5	(20)	%	3	60%
(Loss) income before income taxes	**(225)**	**(108)**	**(28)**	**(148)**	**(176)**	**(117)**	**-108%**	**68**	**39%**
Income tax benefit (expense)	31	(1)	(3)	(27)	(30)	32	%	29	97%
Net loss	**(194)**	**(109)**	**(31)**	**(175)**	**(206)**	**(85)**	**-78%**	**97**	**47%**
Less: (income) loss attributable to noncontrolling interest	(4)	(3)		1	1	(1)	**-33%**	(4)	%
Net loss attributable to Warner Music Group Corp.	**$ (198)**	**$ (112)**	**$ (31)**	**$ (174)**	**$ (205)**	**$ (86)**	**-77%**	**$ 93**	**45%**

OIBDA

2013 vs. 2012

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

Our OIBDA decrease is primarily due to the increase in selling, general and administrative expenses resulting from the Acquisition, specifically restructuring expense of $22 million, a transaction fee under the Management Agreement of $11 million and $38 million in integration costs and professional fees, which were $24 million higher than prior-period. The remaining increase of $37 million, excluding these items, was a result of an increase in revenue with a related increase in cost of revenues, decreases in selling, general and administrative expenses unrelated to the Acquisition, and an increase in selling and marketing expense of $32 million, primarily related to higher variable marketing due to higher revenues. Overall, this resulted in a decreased OIBDA margin.

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2012 vs. 2011

Our OIBDA increased by $63 million or 22%, to $353 million for the fiscal year ended September 30, 2012 as compared to $290 million for the twelve months ended September 30, 2011. Expressed as a percentage of revenues, total OIBDA margin increased by 3% to 13% for the fiscal year ended September 30, 2012 as compared to 10% for the twelve months ended September 30, 2011.

Our OIBDA increase primarily reflected the prior-period charges for transaction costs incurred in connection with the consummation of the Merger and share-based compensation expense related to the payout for unvested Predecessor options and restricted stock awards as well as from the modification of certain restricted stock award agreements. Our OIBDA increase also reflected the strong current-year sales performance of Michael Bublé s Christmas, which increased overall margin due to reductions in proportionate marketing spend, a strong back-end weighted release schedule particularly in Japan, the realization of cost savings from previously announced management initiatives and a cost-recovery benefit related to the early termination of an artist contract, partially offset by the prior-period benefit for the LimeWire settlement, increases in professional fees associated with our Management Agreement and costs related to the sale of EMI. In addition, our Music Publishing business improved its OIBDA margin as a result of a disciplined A&R investment and acquisition strategy focused on higher-margin assets.

See Business Segment Results presented hereinafter for a discussion of OIBDA by business segment.

Depreciation expense

2013 vs. 2012

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

2012 vs. 2011

Depreciation expense increased by $9 million, or 21%, to $51 million for the fiscal year ended September 30, 2012 from $42 million for the twelve months ended September 30, 2011. The increase was primarily due to recently completed capital projects and revaluation of depreciable assets recorded in connection with the Merger.

Amortization expense

2013 vs. 2012

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

2012 vs. 2011

Amortization expense decreased by $23 million, or 11%, to $193 million for the fiscal year ended September 30, 2012 to $216 million for the twelve months ended September 30, 2011. The decrease was primarily related to revaluation of amortizable assets recorded in connection with the Merger, which resulted in longer useful lives of our intangible assets, partially offset by additional amortization associated with recent intangible asset acquisitions.

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Operating income (loss)

2013 vs. 2012

Our operating income decreased $34 million, or 31%, to $75 million, for the fiscal year ended September 30, 2013 from operating income of $109 million for the fiscal year ended September 30, 2012. Operating income margin decreased to 3% for the fiscal year ended September 30, 2013 from 4% for the fiscal year ended September 30, 2012. The decrease in operating income was primarily due to the decrease in OIBDA and the increase in amortization expense as noted above.

2012 vs. 2011

Our operating income increased by $77 million to $109 million for the fiscal year ended September 30, 2012 from $32 million for the twelve months ended September 30, 2011. Operating income margin increased to 4% for the fiscal year ended September 30, 2012, from 1% for the twelve months ended September 30, 2011. The increase in operating income was primarily due to the increase in OIBDA and the decrease in amortization expense, partially offset by the increase in depreciation expense as noted above.

Loss on extinguishment of debt

2013 vs. 2012

On November 1, 2012, we completed a refinancing of our then outstanding Senior Secured Notes due 2016. As a result, we recorded a loss on extinguishment of debt of approximately $83 million, representing the difference between the redemption payment and the carrying value of the debt as of the refinancing date. On June 21, 2013, we redeemed 10% of our then outstanding Senior Secured Notes due 2021. As a result, we recorded a loss on extinguishment of debt of approximately $2 million, which represents the premium paid on early redemption.

Interest expense, net

2013 vs. 2012

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

2012 vs. 2011

Interest expense, net, increased by $12 million, or 6%, to $225 million for the fiscal year ended September 30, 2012 from $213 million for the twelve months ended September 30, 2011. The increase was primarily driven by our new debt obligations, which were issued in connection with the refinancing of certain of our existing indebtedness in connection with the Merger at higher interest rates than the debt that was refinanced, partially offset by tender/call premiums of $19 million incurred in connection with the debt obligations that were repaid in full during the twelve months ended September 30, 2011.

See Financial Condition and Liquidity for more information.

Other (expense) income, net

2013 vs. 2012

Other expense, net, includes net hedging losses on foreign exchange contracts, which represent currency exchange movements associated with intercompany receivables and payables that are short term in nature, and equity losses on our share of net income or loss on investments recorded in accordance with the equity method of accounting for an unconsolidated investee. The fiscal year ended September 30, 2013 also included a $7 million expense for the reimbursement of tax indemnities received in the fiscal year ended September 30, 2012 as a result of tax law changes in Germany. The fiscal year ended September 30, 2012 included a $7 million payment received for tax indemnities related to tax matters in Brazil.

2012 vs. 2011

Other income, net for the fiscal year ended September 30, 2012 and the twelve months ended September 30, 2011 included net hedging gains on foreign exchange contracts, which represent currency exchange movements associated with intercompany receivables and payables that are short term in nature, offset by equity in earnings on our share of net income or loss on investments recorded in accordance with the equity method of accounting for an unconsolidated investee. The increase in other income was driven by payments received for tax indemnities related to tax matters in Brazil.

Income tax benefit (expense)

2013 vs. 2012

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

2012 vs. 2011

We provided income tax expense of $1 million and $30 million for the fiscal year ended September 30, 2012 and for the twelve month ended September 30, 2011, respectively. The decrease in income tax expense primarily relates to the recognition in the fiscal year ended September 30, 2012 of deferred tax benefits for losses generated in various jurisdictions including the U.S. and the impact of tax rate changes in the U.K. and Japan.

Net loss

2013 vs. 2012

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

2012 vs. 2011

Our net loss decreased by $97 million to $109 million for the fiscal year ended September 30, 2012, as compared to $206 million for the twelve months ended September 30, 2011. The decrease in net loss was driven primarily by the increase in operating income and lower income tax expense, partially offset by increases in interest expense, net as noted above.

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Noncontrolling interest

2013 vs. 2012

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

2012 vs. 2011

Net income attributable to noncontrolling interests for the fiscal year ended September 30, 2012 was $3 million and net loss attributable to noncontrolling interests for the twelve months ended September 30, 2011 was $1 million.

Business Segment Results

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

	Successor			Predecessor					
	For the Fiscal Year Ended September 30, 2013	**For the Fiscal Year Ended September 30, 2012**	**From July 20, 2011 through September 30, 2011**	**From October 1, 2010 through July 19, 2011**	**For the Combined Twelve Months ended September 30, 2011**	**2013 vs. 2012 $ Change**	**2013 vs. 2012 % Change**	**2012 vs. 2011 $ Change**	**2012 vs. 2011 % Change**
Recorded Music									
Revenue	$ 2,389	$ 2,281	$ 457	$ 1,890	$ 2,347	$ 108	5%	$ (66)	-3%
OIBDA	270	289	49	238	287	(19)	-7%	2	%
Operating income	$ 92	$ 126	$ 18	$ 97	$ 115	$ (34)	-27%	$ 11	9%
Music Publishing									
Revenue	$ 503	$ 518	$ 103	$ 436	$ 539	$ (15)	-3%	$ (21)	-4%
OIBDA	148	146	50	92	142	2	1%	4	3%
Operating income	$ 81	$ 79	$ 38	$ 30	$ 68	$ 2	3%	$ 11	16%
Corporate Expenses and Eliminations									
Revenue	$ (21)	$ (19)	$ (4)	$ (15)	$ (19)	$ (2)	-11%	%	%
OIBDA	(85)	(82)	(18)	(121)	(139)	(3)	-4%	57	41%
Operating loss	$ (98)	$ (96)	$ (22)	$ (129)	$ (151)	(2)	-2%	$ 55	36%
Total									
Revenue	$ 2,871	$ 2,780	$ 556	$ 2,311	$ 2,867	$ 91	3%	$ (87)	-3%
OIBDA	333	353	81	209	290	(20)	-6%	63	22%
Operating income (loss)	$ 75	$ 109	$ 34	$ (2)	$ 32	$ (34)	-31%	$ 77	%

Recorded Music

Revenues

2013 vs. 2012

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

The overall increase in Recorded Music revenue reflected growth in digital revenues, which more than offset the continued decline in physical sales, as well as increases in artist services and expanded-rights revenue and licensing revenue. The decrease in physical sales was driven by the ongoing transition from physical to digital sales as well as the comparatively strong prior-period performance of Michael Bublé s Christmas album

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

2012 vs. 2011

Recorded Music revenues decreased by $66 million, or 3%, to $2.281 billion for the fiscal year ended September 30, 2012, from $2.347 billion for the twelve months ended September 30, 2011. U.S. Recorded Music revenues were $915 million and $961 million, or 40% and 41% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2012 and for the twelve months ended September 30, 2011, respectively. International Recorded Music revenues were $1.366 billion and $1.386 billion, or 60% and 59% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2012 and the twelve months ended September 30, 2011, respectively. Excluding the unfavorable impact of foreign currency exchange rates, total Recorded Music revenues decreased by $20 million, or 1%.

This performance reflected the ongoing impact of the transition from physical to digital sales offset by the current-year success of Michael Bublé s Christmas album and key local releases in Japan. In addition, growth in digital revenues more than offset physical revenue declines in our Recorded Music business. Artist services and expanded-rights revenues decreased primarily due to a decline in concert promotion revenue resulting from a strong touring schedule in France in the prior period which was not duplicated in the current year. Licensing revenues decreased due primarily to timing. The increase in digital revenues was driven by an increase in revenue from streaming and subscription services of $58 million, growth in digital download revenue of $70 million mainly in the U.S., Latin America and certain European territories, partially offset by a $32 million decline in global ringtone revenue.

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

	Successor			Predecessor					
	For the Year Ended September 30, 2013	For the Year Ended September 30, 2012	From July 20, 2011 through September 30, 2011	From October 1, 2010 through July 19, 2011	For the Combined Twelve Months ended September 30, 2011	*2013 vs. 2012* $ Change	% Change	*2012 vs. 2011* $ Change	% Change
Artist and repertoire costs	$ 681	$ 679	$ 131	$ 560	$ 691	$ 2		$ (12)	-2%
Product costs	543	490	119	428	547	53	11%	(57)	-10%
Total cost of revenues	**$ 1,224**	**$ 1,169**	**$ 250**	**$ 988**	**$ 1,238**	**$ 55**	**5%**	**$ (69)**	**-6%**

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Cost of revenues

2013 vs. 2012

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

2012 vs. 2011

Recorded Music cost of revenues decreased by $69 million, or 6%, to $1.169 billion for the fiscal year ended September 30, 2012 from $1.238 billion for the twelve months ended September 30, 2011. Cost of revenues represented 51% and 53% of Recorded Music revenues for the fiscal year ended September 30, 2012 and the twelve months ended September 30, 2011, respectively. The decrease in product costs was primarily the result of the decrease in physical revenue in the current-year and lower artist services revenue from our European concert promotion businesses. Costs associated with our artist services businesses are primarily recorded as a component of product costs. The decrease in artist and repertoire costs was driven by the decrease in revenue for the current period, the timing of our artist and repertoire spend and a cost-recovery benefit related to the early termination of an artist contract.

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

	Successor			Predecessor	For the Combined				
	For the Year Ended September 30, 2013	For the Year Ended September 30, 2012	From July 20, 2011 through September 30, 2011	From October 1, 2010 through July 19, 2011	Twelve Months ended September 30, 2011	*2013 vs. 2012* $ Change	*2013 vs. 2012* % Change	*2012 vs. 2011* $ Change	*2012 vs. 2011* % Change
General and administrative expense (1)	$ 451	$ 414	$ 74	$ 309	$ 383	$ 37	9%	$ 31	8%
Selling and marketing expense	417	385	77	330	407	32	8%	(22)	-5%
Distribution expense	59	55	12	46	58	4	7%	(3)	-5%
Total selling, general and administrative expense	**$ 927**	**$ 854**	**$ 163**	**$ 685**	**$ 848**	**$ 73**	**9%**	**$ 6**	**1%**

(1) Includes depreciation expense of $32 million, $31 million, and $26 million for the fiscal year ended September 30, 2013, the fiscal year ended September 30, 2012 and the twelve months ended September 30, 2011, respectively.

Selling, general and administrative expense

2013 vs. 2012

Recorded Music selling, general and administrative expense increased by $73 million, or 9%, to $927 million for the fiscal year ended September 30, 2013 from $854 million for the fiscal year ended September 30, 2012. This increase was primarily due to higher general and administrative expense and selling and marketing expense. The $37 million increase in general and administrative expense was due to $8 million of share-based compensation expense, $11 million of a transaction fee under the Management Agreement related to the Acquisition, $22 million of restructuring expense, and a $36 million increase in professional fees and integration costs associated with the Acquisition. This was partially offset by lower variable compensation and $26 million lower severance. The current period results do not yet reflect the expected synergies from the Acquisition, which may not be realized in full. The $32 million increase in selling and marketing expense was primarily the result of variable marketing increases related to current-period releases compared to prior-period releases. Expressed as a percentage of Recorded Music revenues, selling, general and administrative expense increased to 39% for the fiscal year ended September 30, 2013 from 37% for the fiscal year ended September 30, 2012.

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2012 vs. 2011

Selling, general and administrative costs increased by $6 million, or 1%, to $854 million for the fiscal year ended September 30, 2012 from $848 million for the twelve months ended September 30, 2011. Expressed as a percentage of Recorded Music revenues, selling, general and administrative expenses increased to 37% for fiscal year ended September 30, 2012 from 36% for the twelve months ended September 30, 2011. The increase in selling, general and administrative expense was driven primarily by the increase in general and administrative expense, partially offset by the decrease in selling and marketing expense and distribution expense. The increase in general and administrative expense was driven by an increase in severance charges and an increase in depreciation expense resulting from recently completed capital projects and purchase price accounting recorded in connection with the Merger as well as the prior period benefit for the LimeWire settlement, partially offset by the realization of cost savings from previously announced management initiatives and a prior period charge for share-based compensation expense. The decrease in selling and marketing expense was driven by our continued efforts to better align spending on selling and marketing expense with revenues earned. The decrease in distribution expense was driven by the ongoing transition from physical to digital sales.

OIBDA and Operating income

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

	Successor			Predecessor					
	For the Year Ended September 30, 2013	For the Year Ended September 30, 2012	From July 20, 2011 through September 30, 2011	From October 1, 2010 through July 19, 2011	For the Combined Twelve Months ended September 30, 2011	*2013 vs. 2012* $ Change	*2013 vs. 2012* % Change	*2012 vs. 2011* $ Change	*2012 vs. 2011* % Change
OIBDA	$ 270	$ 289	$ 49	$ 238	$ 287	$ (19)	-7%	$ 2	1%
Depreciation and amortization expense	(178)	(163)	(31)	(141)	(172)	(15)	-9%	9	5%
Operating Income	$ 92	$ 126	$ 18	$ 97	$ 115	$ (34)	-27%	$ 11	10%

2013 vs. 2012

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

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

2012 vs. 2011

Recorded Music OIBDA increased by $2 million, or 1%, to $289 million for the fiscal year ended September 30, 2012 from $287 million for the twelve months ended September 30, 2011. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA margin increased to 13% for the fiscal year ended September 30, 2012 from12% for the twelve months ended September 30, 2011. Our Recorded Music OIBDA results reflected the prior period benefit for the LimeWire settlement, a decrease in revenue, an increase in severance charges and an increase in costs related to the sale of EMI, offset by the strong current-year sales performance of Michael Bublé s Christmas, which increased overall margin due to reductions in proportionate marketing spend, a strong release schedule in Japan, the realization of cost savings from previously announced management initiatives, the decrease in selling and marketing expense, a cost recovery benefit related to the early termination of an artist contract and prior period share-based compensation expense.

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Recorded Music operating income increased by $11 million, or 10%, due to a decrease in amortization expense driven by the extended useful lives of certain intangible assets recorded in connection with the Merger, partially offset by an increase in depreciation expense. Recorded Music operating income margin increased to 6% for the fiscal year ended September 30, 2012 from 5% for the twelve months ended September 30, 2011.

Music Publishing

Revenues

2013 vs. 2012

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

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

2012 vs. 2011

Music Publishing revenues decreased by $21 million, or 4%, to $518 million for the fiscal year ended September 30, 2012 from $539 million for the twelve months ended September 30, 2011. U.S. Music Publishing revenues were $198 million and $191 million, or 38% and 35% of Music Publishing revenues for the fiscal year ended September 30, 2012 and for the twelve months ended September 30, 2011, respectively. International Music Publishing revenues were $320 million and $348 million, or 62% and 65% of Music Publishing revenues for the fiscal year ended September 30, 2012 and for the twelve months ended September 30, 2011, respectively. Excluding the unfavorable impact of foreign currency exchange rates, total Music Publishing revenues decreased by $3 million, or 1%.

The decrease in Music Publishing revenue was driven primarily by decreases in mechanical revenue and performance revenue, partially offset by an increase in digital revenue. The decrease in mechanical revenue reflected the impact of the ongoing transition from physical to digital sales in the recorded music industry and the decision to exit certain lower-margin administration deals. The decrease in performance revenue was driven primarily by a reduction in U.S. radio license fees and a market decline in the U.K., partially offset by a stronger advertising market, strong chart positions and recent acquisitions. The increase in digital revenue was driven by the growth of global digital downloads of $7 million and the continued success of streaming services of $4 million offset by declines of $4 million in global ringtone revenue.

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

	Successor			Predecessor					
	For the Year Ended September 30, 2013	**For the Year Ended September 30, 2012**	**From July 20, 2011 through September 30, 2011**	**From October 1, 2010 through July 19, 2011**	**For the Combined Twelve Months ended September 30, 2011**	***2013 vs. 2012* $ Change**	**% Change**	***2012 vs. 2011* $ Change**	**% Change**
Artist and repertoire costs	$ 296	$ 309	$ 42	$ 288	$ 330	$ (13)	-4%	$ (21)	-6%
Total cost of revenues	**$ 296**	**$ 309**	**$ 42**	**$ 288**	**$ 330**	**$ (13)**	**-4%**	**$ (21)**	**-6%**

Cost of revenues

2013 vs. 2012

Music Publishing cost of revenues decreased by $13 million, or 4%, to $296 million for the fiscal year ended September 30, 2013 from $309 million for the fiscal year ended September 30, 2012. Expressed as a percentage of Music Publishing revenues, Music Publishing cost of revenues decreased to 59% for the fiscal year ended September 30, 2013 from 60% for the fiscal year ended September 30, 2012 as a result of the shift towards higher margin deals.

2012 vs. 2011

Music Publishing cost of revenues decreased by $21 million, or 6%, to $309 million for the fiscal year ended September 30, 2012 from $330 million for the twelve months ended September 30, 2011. Expressed as a percentage of Music Publishing revenues, Music Publishing cost of revenues decreased from 61% for the twelve months ended September 30, 2011 to 60% for the fiscal year ended September 30, 2012. The decrease was driven primarily as a result of a disciplined A&R investment and acquisition strategy focused on higher-margin assets, partially offset by a year-over-year increase in unproven artist spend.

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

	Successor			Predecessor					
	For the Year Ended September 30, 2012	**For the Year Ended September 30, 2012**	**From July 20, 2011 through September 30, 2011**	**From October 1, 2010 through July 19, 2011**	**For the Combined Twelve Months ended September 30, 2011**	***2013 vs. 2012* $ Change**	**% Change**	***2012 vs. 2011* $ Change**	**% Change**
General and administrative expense (1)	$ 63	$ 67	$ 9	$ 58	$ 67	$ (4)	-6%	$	%
Selling and marketing expense	2	2	1	1	2		%		%
Total selling, general and administrative expense	**$ 65**	**$ 69**	**$ 10**	**$ 59**	**$ 69**	**$ (4)**	**-6%**	**$**	**%**

(1) Includes depreciation expense of $6 million, $6 million, and $4 million for the fiscal year ended September 30, 2013, the fiscal year ended September 30, 2012 and the twelve months ended September 30, 2011, respectively.

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Selling, general and administrative expense

2013 vs. 2012

Music Publishing selling, general and administrative expense decreased by $4 million, or 6%, to $65 million for the fiscal year ended September 30, 2013 from $69 million for the fiscal year ended September 30, 2012, primarily due to lower variable compensation and $3 million lower severance expense recorded within general and administrative expense. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense remained flat at 13% for the fiscal year ended September 30, 2013 and the fiscal year ended September 30, 2012.

2012 vs. 2011

Music Publishing selling, general and administrative expense was $69 million for the fiscal year ended September 30, 2012 and for the twelve months ended September 30, 2011. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense also remained flat at 13% for the fiscal years ended September 30, 2012 and for the twelve months ended September 30, 2011.

OIBDA and Operating income

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

	Successor			Predecessor					
	For the Year Ended September 30, 2013	For the Year Ended September 30, 2012	From July 20, 2011 through September 30, 2011	From October 1, 2010 through July 19, 2011	For the Combined Twelve Months ended September 30, 2011	*2013 vs. 2012* $ Change	*2013 vs. 2012* % Change	*2012 vs. 2011* $ Change	*2012 vs. 2011* % Change
OIBDA	$ 148	$ 146	$ 50	$ 92	$ 142	$ 2	1%	$ 4	3%
Depreciation and amortization expense	(67)	(67)	(12)	(62)	(74)		%	7	-9%
Operating Income	$ 81	$ 79	$ 38	$ 30	$ 68	$ 2	3%	$ 11	16%

2013 vs. 2012

Music Publishing OIBDA increased by $2 million, or 1%, to $148 million for the fiscal year ended September 30, 2013 from $146 million for the fiscal year ending September 30, 2012 primarily as a result of a decrease in selling, general and administrative expense. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA margin increased to 29% for the fiscal year ended September 30, 2013 from 28% for the fiscal year ended September 30, 2012 primarily due to the shift towards higher-margin deals.

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

2012 vs. 2011

Music Publishing OIBDA increased by $4 million, or 3%, to $146 million for the fiscal year ended September 30, 2012 from $142 million for the twelve months ended September 30, 2011. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA increased to 28% for the fiscal year ended September 30, 2012 from 26% for the twelve months ended September 30, 2011. The increase in OIBDA margin was primarily the result of a disciplined A&R investment and acquisition strategy focused on higher-margin assets, lower severance charges taken during the current period and the prior-period charge incurred in connection with the consummation of the Merger related to a change in control fee, partially offset by an increase in unproven artist spend.

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Music Publishing operating income increased by $11 million for the fiscal year ended September 30, 2012 due primarily to the increase in OIBDA noted above and lower amortization expense driven by the extended useful lives of certain intangible assets recorded in connection with the Merger, partially offset by the increase in depreciation expense.

Corporate Expenses and Eliminations

2013 vs. 2012

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

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

2012 vs. 2011

Our OIBDA loss from corporate expenses and eliminations decreased by $57 million to $82 million for the fiscal year ended September 30, 2012, from $139 million for the twelve months ended September 30, 2011, primarily as a result of the realization of cost savings from previously announced management initiatives, lower severance charges, prior-period charges for share-based compensation expense and transaction costs incurred in connection with the consummation of the Merger, partially offset by an increase in professional fees related to the sale of EMI and our annual fees related to the Management Agreement.

Our operating loss from corporate expenses and eliminations decreased to $96 million for the fiscal year ended September 30, 2012, from $151 million for the twelve months ended September 30, 2011. The decrease in operating loss was primarily driven by the decrease in corporate expenses noted above, partially offset by an increase in depreciation expense.

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FINANCIAL CONDITION AND LIQUIDITY

Financial Condition at September 30, 2013

At September 30, 2013, we had $2.867 billion of debt, $155 million of cash and equivalents (net debt of $2.712 billion, defined as total debt less cash and equivalents and short-term investments) and $726 million of Warner Music Group Corp. equity. This compares to $2.206 billion of debt, $302 million of cash and equivalents (net debt of $1.904 billion) and $927 million of Warner Music Group Corp. equity at September 30, 2012. Net debt increased by $808 million as a result of (i) $661 million of additional net debt borrowed in the current year in connection with our acquisition of PLG and (ii) a $147 million decrease in cash.

The $201 million decrease in Warner Music Group Corp. s equity during the fiscal year ended September 30, 2013 was primarily due to our $198 million net loss.

Cash Flows

The following table summarizes our historical cash flows. The financial data for fiscal year ended September 30, 2013 (Successor), for the fiscal year ended September 30, 2012 (Successor), for the period from July 20, 2011 through September 30, 2011 (Successor) and for the period from October 1, 2010 to July 19, 2011 (Predecessor) have been derived from our audited financial statements included elsewhere herein.

	Successor			Predecessor	
Cash Provided By (Used In):	**For the Fiscal Year Ended September 30, 2013**	**For the Fiscal Year Ended September 30, 2012**	**From July 20, 2011 through September 30, 2011**	**From October 1, 2010 through July 19, 2011**	**For the Combined Twelve Months ended September 30, 2011**
			(in millions)		
Operating activities	$ 159	$ 209	$ (64)	$ 12	$ (52)
Investing activities	(808)	(58)	(1,292)	(155)	(1,447)
Financing activities	511	(3)	1,199	5	1,204

Operating Activities

Cash provided by operating activities was $159 million for the fiscal year ended September 30, 2013 compared to $209 million for the fiscal year ended September 30, 2012 and cash used in operating activities of $52 million for the twelve months ended September 30, 2011. The decrease in results from operating activities in fiscal 2013 reflected the decrease in our OIBDA driven primarily by higher integration costs and professional fees related to the Acquisition, changes in working capital associated with the operations of the business and the increase in cash paid for interest of $13 million due to the timing of interest payments. The increase in results from operating activities in fiscal 2012 reflected the increase in our OIBDA driven primarily by the absence of transaction costs in 2012 that were incurred in connection with the Merger during the twelve months ended September 30, 2011, the timing of our working capital requirements and the decrease in cash paid for interest of $17 million.

Investing Activities

Cash used in investing activities was $808 million for the fiscal year ended September 30, 2013, compared to $58 million for the fiscal year ended September 30, 2012 and $1.447 billion for the twelve months ended September 30, 2011. Cash used in investing activities of $808 million for the fiscal year ended September 30, 2013 consisted of $37 million to acquire music publishing rights, $34 million for capital expenditures related to IT and $737 million, net of cash acquired, for business acquisitions, primarily the acquisition of PLG. Cash used in investing activities of $58 million for the fiscal year ended September 30, 2012 consisted of $32 million to acquire music publishing rights, $32 million for capital expenditures primarily related to IT and $8 million to acquire businesses, net of cash acquired, partially offset by $12 million received for the sale of a building and $2 million received for the sale of a recorded music catalog.

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Cash used in investing activities of $1.447 billion for the twelve months ended September 30, 2011 consisted of $48 million of capital expenditures primarily related to IT infrastructure improvements, cash used of $62 million to acquire music publishing rights, $59 million to acquire businesses, net of cash acquired and $1.278 billion related to the purchase of shares of our common stock in connection with the Merger.

Financing Activities

Cash provided by financing activities was $511 million for the fiscal year ended September 30, 2013 compared to cash used in financing activities of $3 million for the fiscal year ended September 30, 2012 and cash provided by financing activities of $1.204 billion for the twelve months ended September 30, 2011. Cash provided by financing activities of $511 million for the fiscal year ended September 30, 2013 consisted of proceeds from the issuance of New Senior Secured Notes of $727 million and subsequent repayment of $73 million, proceeds from the Term Loan Facility of $1.412 billion and subsequent repayment of $110 million, offset by repayment of $1.250 billion of Old Secured Notes, $95 million of tender/call premiums and $34 million of consent fees paid on early redemption of debt, $62 million of deferred financing costs paid for refinancing and $4 million of distributions to noncontrolling interest holders. Cash used in financing activities of $3 million for the fiscal year ended September 30, 2012 consisted of distributions to our noncontrolling interest holders. Cash provided by financing activities of $1.204 billion for the twelve months ended September 30, 2011 consisted primarily of a capital contribution received from Parent of $1.099 billion, net proceeds from the issuance of the Unsecured WMG Notes of $747 million, net proceeds from the issuance of the Second Tranche of Old Secured Notes of $157 million, proceeds from the issuance of the Holdings Notes of $150 million and proceeds from the exercise of stock options of $6 million, partially offset by full repayment of the Old Acquisition Corp. Notes of $626 million, the full repayment of the Old Holdings Notes of $258 million, deferred financing fees related to new debt obligations of $70 million and distributions to our noncontrolling interest holders of $1 million.

Liquidity

Our primary sources of liquidity are the cash flows generated from our subsidiaries operations, available cash and equivalents and funds available for drawing under our Revolving Credit Facility. These sources of liquidity are needed to fund our debt service requirements, working capital requirements, capital expenditure requirements, strategic acquisitions and investments, including the closing working capital adjustment in connection with our acquisition of PLG, if any, and any dividends, prepayments of debt or repurchases of our outstanding notes in open market purchases, privately negotiated purchases or otherwise we may elect to pay or make in the future. We believe that our existing sources of cash will be sufficient to support our existing operations over the next fiscal year.

Existing Debt as of September 30, 2013

As of September 30, 2013 (Successor), our long-term debt, including the current portion, was as follows (in millions):

Revolving Credit Facility (a)	$
Term Loan Facility due 2020 Acquisition Corp. (b)	1,303
6.00% Senior Secured Notes due 2021 Acquisition Corp.	450
6.25% Senior Secured Notes due 2021 Acquisition Corp. (c)	213
11.5% Senior Notes due 2018 Acquisition Corp. (d)	751
13.75% Senior Notes due 2019 Holdings	150
Total long-term debt, including the current portion	$ 2,867

(a) Reflects $150 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $1 million at September 30, 2013 (Successor). There were no loans outstanding under the Revolving Credit Facility as of September 30, 2013 (Successor).

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(b) Principal amount of $1.310 billion less unamortized discount of $7 million. Of this amount, $13 million, representing the scheduled amortization of the Term Loan, was included in the current portion of long term debt at September 30, 2013 (Successor).
(c) Face amount of 158 million. Amount above represents the dollar equivalent of such notes at September 30, 2013 (Successor).
(d) Face amount of $765 million less unamortized discounts of $14 million and $16 million at September 30, 2013 (Successor) and September 30, 2012 (Successor), respectively.

Revolving Credit Facility

On November 1, 2012 (the 2012 Refinancing Closing Date), Acquisition Corp. entered into a credit agreement (the Revolving Credit Agreement) for a senior secured revolving credit facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the Revolving Credit Facility).

General

Acquisition Corp. is the borrower (the Revolving Borrower) under the Revolving Credit Facility. The Revolving Credit Facility provides for a revolving credit facility in the amount of up to $150,000,000 (the Commitments) and includes a $50,000,000 letter of credit sub-facility. Amounts are available under the Revolving Credit Facility in U.S. dollars, euros or pounds Sterling. The Revolving Credit Facility permits loans for general corporate purposes. The Revolving Credit Facility may also be utilized to issue letters of credit on or after the 2012 Refinancing Closing Date.

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

Interest Rates and Fees

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

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

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

Prepayments

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

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Voluntary reductions of the unutilized portion of the Commitments and prepayments of borrowings under the Revolving Credit Facility are permitted at any time, in minimum principal amounts as set forth in the Revolving Credit Facility, without premium or penalty, subject to reimbursement of the lenders redeployment costs actually incurred in the case of a prepayment of LIBOR-based borrowings other than on the last day of the relevant interest period.

Ranking

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

Guarantee

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

Covenants, Representations and Warranties

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

There are no financial covenants included in the Revolving Credit Agreement, other than a springing leverage ratio, which will be tested only when there are loans outstanding under the Revolving Credit Facility in excess of $30,000,000 (excluding (i) letters of credit that have been cash collateralized and (ii) undrawn outstanding letters of credit that have not been cash collateralized not exceeding $20,000,000).

Events of Default

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

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Amendment

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

Term Loan Facility

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

General

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

The loans outstanding under the Amended Term Loan Credit Agreement mature on July 1, 2020, with a springing maturity date on July 2, 2018 in the event that more than $153 million aggregate principal amount of the 11.50% Senior Notes of Acquisition Corp. due October 1, 2018 (the Unsecured WMG Notes) are outstanding on June 28, 2018 unless, on June 28, 2018, the senior secured indebtedness to EBITDA ratio of Acquisition Corp. is less than or equal to 3.50 to 1.00.

Interest Rates and Fees

The loans under the Term Loan Credit Agreement bear interest at Term Loan Borrower s election at a rate equal to (i) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period (Term Loan LIBOR Rate), plus 2.75% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) the overnight federal funds rate plus 0.50% and (z) the one-month Term Loan LIBOR Rate plus 1.0% per annum (Term Loan Base Rate), plus, in each case, 1.75% per annum. The Term Loan LIBOR Rate shall be deemed to be not less than 1.00%.

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

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

Scheduled Amortization

Loans outstanding under the Amended Term Loan Credit Agreement will amortize in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount of indebtedness outstanding under the Amended Term Loan Credit Agreement with the balance payable on the maturity date of the term loans. The first quarterly installment is scheduled to be paid on December 31, 2013. The loans

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outstanding under the Amended Term Loan Credit Agreement mature on July 1, 2020, with a springing maturity date on July 2, 2018 in the event that more than $153 million aggregate principal amount of the 11.50% Senior Notes of Acquisition Corp. due October 1, 2018 (the Unsecured WMG Notes) are outstanding on June 28, 2018 unless, on June 28, 2018, the senior secured indebtedness to EBITDA ratio of Acquisition Corp. is less than or equal to 3.50 to 1.00.

Prepayments

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

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

(i) 100% of the net proceeds (other than those that are used to purchase certain assets or to repay certain other indebtedness) of certain asset sales and certain insurance recovery events;

(ii) 100% of the net proceeds (other than those that are used to repay certain other indebtedness) of indebtedness for borrowed money (other than indebtedness incurred in compliance with the debt covenant of the Term Loan Facility); and

(iii) 50% of the annual excess cash flow for any fiscal year (as reduced by the repayment of certain indebtedness), such percentage to decrease to 25% and 0% depending on the attainment of certain senior secured debt to EBITDA ratio targets.

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

Ranking

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

Guarantee

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

Covenants, Representations and Warranties

The Term Loan Facility contains customary representations and warranties and customary affirmative and negative covenants. The Term Loan Facility contains negative covenants limiting, among other things, Acquisition Corp. s ability and the ability of most of its subsidiaries to: incur additional indebtedness or issue certain preferred shares; pay dividends on or make distributions in respect of its capital stock or make

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investments or other restricted payments; create restrictions on the ability of its restricted subsidiaries to pay dividends to it or make certain other intercompany transfers; sell certain assets; create liens; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; repurchase or repay certain indebtedness following a change of control; and enter into certain transactions with its affiliates.

Events of Default

Events of default under the Term Loan Credit Agreement are limited to nonpayment of principal, interest or other amounts, violation of covenants, incorrectness of representations and warranties in any material respect, cross default and cross acceleration of certain material debt, bankruptcy, material judgments, ERISA events, actual or asserted invalidities of the security documents and a change of control (subject to the Term Loan Borrower s ability to make an offer to prepay the Term Loans), in each case subject to customary notice and grace period provisions.

Term Loan Credit Agreement Amendment

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

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

<u>New Secured Notes</u>

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

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

Interest on the Euro Notes will accrue at the rate of 6.250% per annum and will be payable semi-annually in arrears on January 15 and July 15, commencing on July 15, 2013.

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

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Ranking

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

Guarantees

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

Optional Redemption

Dollar Notes

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

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

(2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such equity offering.

The Dollar Notes may be redeemed, in whole or in part, at any time prior to January 15, 2016, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the Dollar Notes redeemed plus the applicable make-whole premium as of, and accrued and unpaid interest thereon, if any, to, the applicable

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redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

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

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

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

Euro Notes

At any time prior to January 15, 2016, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of Euro Notes (including the aggregate principal amount of any additional securities constituting Euro Notes) issued under the Indenture, at its option, at a redemption price equal to 106.250% of the principal amount of the Euro Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of Euro Notes on the relevant record date to receive interest on the relevant interest payment date), with funds in an aggregate amount not exceeding the net cash proceeds of one or more equity offerings by Acquisition Corp. or any contribution to Acquisition Corp. s common equity capital made with the net cash proceeds of one or more equity offerings by Acquisition Corp. s direct or indirect parent; *provided* that:

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

(2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such equity offering.

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

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

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

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

Change of Control

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

Covenants

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

Events of Default

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

Unsecured WMG Notes

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

The Unsecured WMG Notes were issued at 97.673% of their face value for total net proceeds of $747 million, with an effective interest rate of 12%. The original issue discount (OID) was $17 million. The OID is the difference between the stated principal amount and the issue price. The OID will be amortized over the term of the Unsecured WMG Notes using the effective interest rate method and reported as non-cash interest expense. The Unsecured WMG Notes mature on October 1, 2018 and bear interest payable semi-annually on April 1 and October 1 of each year at a fixed rate of 11.50% per annum.

Ranking

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

Guarantees

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

Optional Redemption

Acquisition Corp. may redeem the Unsecured WMG Notes, in whole or in part, at any time prior to October 1, 2014, at a price equal to 100% of the principal amount thereof, plus the applicable make-whole premium and accrued and unpaid interest and special interest, if any, on the Unsecured WMG Notes to be redeemed to the applicable redemption date. On or after October 1, 2014, Acquisition Corp. may redeem all or a part of the Unsecured WMG Notes, at its option, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and special interest, if any, on the Unsecured WMG Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on October 1 of the years indicated below:

Year	Percentage
2014	108.625%
2015	105.750%
2016	102.875%
2017 and thereafter	100.000%

In addition, at any time (which may be more than once) before October 1, 2014, Acquisition Corp. may redeem up to 35% of the aggregate principal amount of the Unsecured WMG Notes with the net cash proceeds of certain equity offerings at a redemption price of 111.50%, plus accrued and unpaid interest and special interest, if any, to the applicable redemption date; provided that: (1) at least 50% of the aggregate principal amount of Unsecured WMG Notes originally issued under the Unsecured WMG Notes Indenture remains outstanding immediately after the occurrence of such redemption; and (2) the redemption occurs within 90 days of the date of, and may be conditioned upon, the closing of such equity offering.

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Change of Control

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

Covenants

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

Events of Default

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

Holdings Notes

On the Merger Closing Date, the Initial Holdings Issuer issued $150 million aggregate principal amount of 13.75% Senior Notes due 2019 issued by Holdings, the (Holdings Notes) pursuant to the Indenture, dated as of the Closing Date (as amended and supplemented, the Holdings Notes Indenture), between the Initial Holdings Issuer and Wells Fargo Bank, National Association as Trustee (the Trustee). Following the completion of the Holdings Merger on the Closing Date, Holdings entered into a Supplemental Indenture, dated as of the Closing Date (the Holdings Notes First Supplemental Indenture), with the Trustee, pursuant to which Holdings became a party to the Indenture and assumed the obligations of the Initial Holdings Issuer under the Holdings Notes.

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

Ranking

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

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Guarantee

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

Optional Redemption

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

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

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

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

Change of Control

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

Covenants

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

Events of Default

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

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Guarantees

Guarantee of Holdings Notes

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

Guarantee of Acquisition Corp. Notes

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

Guarantee of New Secured Notes

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

Additional Consents Related To Our Notes

On March 4, 2013, we entered into supplemental indentures to the indentures governing all of our outstanding notes, as applicable, after the requisite consents with respect to the applicable consent solicitations were received. The supplemental indentures amended the applicable indentures to permit us to provide certain Specified Information (as defined in the applicable supplemental indenture) with respect to the acquisition of Parlophone Label Group from Universal Music Group in satisfaction of the financial reporting covenants in the indentures governing our outstanding notes.

On October 22, 2012, we commenced consent solicitations relating to the Unsecured WMG Notes and Holdings Notes. We entered into supplemental indentures to the indentures governing the Unsecured WMG Notes and the Holdings Notes, as applicable, after the requisite consents with respect to the applicable consent solicitations were received. The supplemental indentures amended the applicable indentures to permit us to incur additional secured indebtedness under certain circumstances.

Covenant Compliance

See Liquidity above for a description of the covenants governing our indebtedness. The Company was in compliance with its covenants under its outstanding notes, Revolving Credit Facility and Term Loan Credit Facility as of September 30, 2013.

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

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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 flow from operations as those terms are defined by 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 (loss), which is a GAAP measure of our operating results, to Consolidated EBITDA as defined, and the calculation of the Consolidated Funded Indebtedness to Consolidated EBITDA ratio, which we refer to as the leverage ratio, under our Revolving Credit Agreement for the most recently ended four fiscal quarters ended September 30, 2013. The terms and related calculations are defined in the Revolving Credit Agreement. All amounts in the reconciliation below reflect WMG Acquisition Corp. (in millions, except ratios):

	Twelve Months Ended September 30, 2013	
Net Loss	$	(172)
Income tax expense		(31)
Interest expense, net		181
Depreciation and amortization		