Warner Music Group Corp. Form 10-Q May 10, 2011 Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2011

OR

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

Commission File Number 001-32502

Warner Music Group Corp.

 $(Exact\ name\ of\ Registrant\ as\ specified\ in\ its\ charter)$

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Delaware (State or other jurisdiction of

13-4271875 (I.R.S. Employer

incorporation or organization)

Identification No.)

75 Rockefeller Plaza

New York, NY 10019

(Address of principal executive offices)

(212) 275-2000

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer Accelerated filer Accelerated filer

Non-accelerated filer " (Do not check if a smaller reporting company)

Smaller reporting company

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

As of May 4, 2011, the number of shares of the Registrant s common stock, par value \$0.001 per share, outstanding was 155,754,133.

WARNER MUSIC GROUP CORP.

INDEX

		Page
Part I.	Financial Information	
Item 1.	Financial Statements (Unaudited)	3
	Consolidated Balance Sheets as of March 31, 2011 and September 30, 2010	3
	Consolidated Statements of Operations for the Three and Six Months Ended March 31, 2011 and 2010	4
	Consolidated Statements of Cash Flows for the Six Months Ended March 31, 2011 and 2010	5
	Consolidated Statement of Deficit for the Six Months Ended March 31, 2011	6
	Notes to Consolidated Interim Financial Statements	7
	Supplementary Information Consolidating Financial Statements	16
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	23
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	49
Item 4.	Controls and Procedures	50
Part II.	Other Information	
Item 1.	Legal Proceedings	51
Item 1A.	Risk Factors	51
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	61
Item 3.	<u>Defaults Upon Senior Securities</u>	61
Item 4.	(Removed and Reserved)	62
Item 5.	Other Information	62
Item 6.	<u>Exhibits</u>	62
Signature	S	64

ITEM 1. FINANCIAL STATEMENTS

Warner Music Group Corp.

Consolidated Balance Sheets (Unaudited)

Assets Surfame Surfa		March 31, 2011	September 30, 2010 millions)	
Current assets: \$ 349 \$ 439 Cash and equivalents \$ 319 \$ 439 Cash and equivalents 337 434 Local and equivalents 31 37 Cash and equivalents 31 37 Royalty advances expected to be recouped within one year 168 143 Deferred tax assets 30 30 Other current assets 939 1,129 Royalty advances expected to be recouped after one year 207 189 Property, plant and equipment, net 123 121 Goodwill 1,084 1,081 Intangible assets subject to amortization, net 1,103 1,119 Intangible assets not subject to amortization 61 64 Total assets \$ 3,617 \$ 3,799 Librilities and Deficit \$ 3,617 \$ 3,799 Librilities and Deficit \$ 151 \$ 206 Current liabilities 1,91 1,91 Current liabilities 221 314 Accrued of vapulies 1,94 1,94	A	(in		
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Intangible assets subject to amortization, net 1,103 1,119 1,100 100	Property, plant and equipment, net	123		121
Intangible assets not subject to amortization 100 100 Other assets 61 64 Total assets \$3,617 \$3,779 Liabilities and Deficit Current liabilities: Accrued nyapable \$151 \$206 Accrued royalties 1,041 1,034 Accrued interest 60 59 Deferred revenue 116 100 Other current liabilities 1,589 1,721 Long-term debt 1,951 1,945 Deferred tax liabilities 166 169 Other noncurrent liabilities 3,871 3,990 Commitments and Contingencies (See Note 9) Deferred cax liabilities 3,871 3,990 Common stock (\$0,001 par value; 500,000,000 shares authorized; 155,164,390 and 154,950,776 shares issued and outstanding) Additional paid-in-capital 618 611 Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Copp. shareholders	Goodwill	1,084		1,057
Other assets 61 64 Total assets \$ 3,617 \$ 3,779 Liabilities and Deficit Current liabilities: 4 Accounts payable \$ 151 \$ 206 Accound royalties 1,041 1,034 Accrued liabilities 221 314 Accrued interest 60 59 Deferred revenue 116 100 Other current liabilities 1,589 1,721 Long-term debt 1,951 1,945 Deferred tax liabilities 166 169 Other noncurrent liabilities 3,871 3,990 Commitments and Contingencies (See Note 9) Deferiet Commitments and Contingencies (See Note 9) Commitments and Contingencies (See Note 9) Deficit: Commitments and Contingencies (See Note 9) 461 618 611 Accumulated deficit (985) (929) Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp. shareholders def	Intangible assets subject to amortization, net	1,103		1,119
Other assets 61 64 Total assets \$ 3,617 \$ 3,779 Liabilities and Deficit Current liabilities 8 Accounts payable \$ 151 \$ 206 Accrued royalties 1,041 1,034 Accrued liabilities 221 314 Accrued interest 60 59 Deferred revenue 116 100 Other current liabilities 1,589 1,721 Long-term debt 1,951 1,945 Deferred tax liabilities 166 169 Other noncurrent liabilities 165 155 Total liabilities 3,871 3,990 Commitments and Contingencies (See Note 9) Deficit: Common stock (\$0,001 par value; 500,000,000 shares authorized; 155,164,390 and 154,950,776 shares issued and outstanding) 618 611 Additional paid-in capital 618 611 Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp, shareholders deficit	Intangible assets not subject to amortization	100		100
Liabilities and Deficit Current liabilities: 3.51 \$ 206 Accounts payable 1,041 1,034 Accrued royalties 1,041 1,034 Accrued liabilities 221 314 Accrued interest 60 59 Deferred revenue 116 100 Other current liabilities 1,589 1,721 Long-term debt 1,951 1,945 Deferred tax liabilities 166 169 Other noncurrent liabilities 165 155 Total liabilities 3,871 3,990 Commitments and Contingencies (See Note 9) Common stock (\$0.001 par value; 500,000,000 shares authorized; 155,164,390 and 154,950,776 shares issued and outstanding) 618 611 Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp, shareholders deficit (304) (265)	Other assets	61		64
Current liabilities: Counts payable \$ 151 \$ 206 Accrued royalties 1,041 1,034 Accrued liabilities 221 314 Accrued interest 60 59 Deferred revenue 116 100 Other current liabilities 1,589 1,721 Long-term debt 1,951 1,945 Deferred tax liabilities 166 169 Other noncurrent liabilities 165 155 Total liabilities 3,871 3,990 Commitments and Contingencies (See Note 9) Common stock (\$0,001 par value; 500,000,000 shares authorized; 155,164,390 and 154,950,776 shares issued and outstanding) Additional paid-in capital 618 611 Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp. shareholders deficit (304) (265)	Total assets	\$ 3,617	\$	3,779
Accounts payable \$ 151 \$ 206 Accrued royalties 1,041 1,034 Accrued liabilities 221 314 Accrued interest 60 59 Deferred revenue 116 100 Other current liabilities 1,589 1,721 Long-term debt 1,951 1,945 Deferred tax liabilities 166 169 Other noncurrent liabilities 165 155 Total liabilities 3,871 3,990 Commitments and Contingencies (See Note 9) Commitments and Contingencies (See Note 9) Common stock (\$0.001 par value; 500,000,000 shares authorized; 155,164,390 and 154,950,776 shares issued and outstanding) Additional paid-in capital 618 611 Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp. shareholders deficit (304) (265)	Liabilities and Deficit			
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Accrued liabilities 221 314 Accrued interest 60 59 Deferred revenue 116 100 Other current liabilities 8 Total current liabilities 1,589 1,721 Long-term debt 1,951 1,945 Deferred tax liabilities 166 169 Other noncurrent liabilities 165 155 Total liabilities 3,871 3,990 Commitments and Contingencies (See Note 9) Deficit: Common stock (\$0.001 par value; 500,000,000 shares authorized; 155,164,390 and 154,950,776 shares issued and outstanding) Additional paidal apital 618 611 Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp. shareholders deficit (304) (265)	Accounts payable	\$ 151	\$	206
Accrued interest 60 59 Deferred revenue 116 100 Other current liabilities 8 Total current liabilities 1,589 1,721 Long-term debt 1,951 1,945 Deferred tax liabilities 166 169 Other noncurrent liabilities 165 155 Total liabilities 3,871 3,990 Commitments and Contingencies (See Note 9) Deficit: Commitments and Contingencies (See Note 9) Deficit: Commitments and Contingencies (See Note 9) Additional paid-in capital 618 611 Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp. shareholders deficit (304) (265)	Accrued royalties	1,041		1,034
Deferred revenue 116 100 Other current liabilities 8 Total current liabilities 1,589 1,721 Long-term debt 1,951 1,945 Deferred tax liabilities 166 169 Other noncurrent liabilities 165 155 Total liabilities 3,871 3,990 Commitments and Contingencies (See Note 9) Deficit: Common stock (\$0.001 par value; 500,000,000 shares authorized; 155,164,390 and 154,950,776 shares issued and outstanding) 46ditional paid-in capital 618 611 Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp. shareholders deficit (304) (265)	Accrued liabilities	221		314
Other current liabilities 1,589 1,721 Long-term debt 1,951 1,945 Deferred tax liabilities 166 169 Other noncurrent liabilities 165 155 Total liabilities 3,871 3,990 Commitments and Contingencies (See Note 9) Deficit: Common stock (\$0.001 par value; 500,000,000 shares authorized; 155,164,390 and 154,950,776 shares issued and outstanding) 618 611 Additional paid-in capital 618 611 Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp. shareholders deficit (304) (265)	Accrued interest	60		59
Total current liabilities	Deferred revenue	116		100
Long-term debt 1,951 1,945 Deferred tax liabilities 166 169 Other noncurrent liabilities 165 155 Total liabilities 3,871 3,990 Commitments and Contingencies (See Note 9) Deficit: Common stock (\$0.001 par value; 500,000,000 shares authorized; 155,164,390 and 154,950,776 shares issued and outstanding) Additional paid-in capital 618 611 Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp. shareholders deficit (304) (265)	Other current liabilities			8
Deferred tax liabilities 166 169 Other noncurrent liabilities 3,871 3,990 Total liabilities 3,871 3,990 Commitments and Contingencies (See Note 9) Deficit: Common stock (\$0.001 par value; 500,000,000 shares authorized; 155,164,390 and 154,950,776 shares issued and outstanding) Additional paid-in capital 618 611 Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp. shareholders deficit (304) (265)	Total current liabilities	1,589		1,721
Deferred tax liabilities 166 169 Other noncurrent liabilities 3,871 3,990 Total liabilities 3,871 3,990 Commitments and Contingencies (See Note 9) Deficit: Common stock (\$0.001 par value; 500,000,000 shares authorized; 155,164,390 and 154,950,776 shares issued and outstanding) Additional paid-in capital 618 611 Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp. shareholders deficit (304) (265)	Long-term debt	1,951		1,945
Total liabilities 3,871 3,990 Commitments and Contingencies (See Note 9) Deficit: Common stock (\$0.001 par value; 500,000,000 shares authorized; 155,164,390 and 154,950,776 shares issued and outstanding) Additional paid-in capital 618 611 Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp. shareholders deficit (304) (265)	Deferred tax liabilities	166		169
Commitments and Contingencies (See Note 9) Deficit: Common stock (\$0.001 par value; 500,000,000 shares authorized; 155,164,390 and 154,950,776 shares issued and outstanding) Additional paid-in capital 618 611 Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp. shareholders deficit (304) (265)	Other noncurrent liabilities	165		155
Deficit: Common stock (\$0.001 par value; 500,000,000 shares authorized; 155,164,390 and 154,950,776 shares issued and outstanding) Additional paid-in capital 618 611 Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp. shareholders deficit (304) (265)	Total liabilities	3,871		3,990
Deficit: Common stock (\$0.001 par value; 500,000,000 shares authorized; 155,164,390 and 154,950,776 shares issued and outstanding) Additional paid-in capital 618 611 Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp. shareholders deficit (304) (265)	Commitments and Contingencies (See Note 9)			
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Accumulated deficit (985) (929) Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp. shareholders deficit (304) (265)				
Accumulated other comprehensive income, net 63 53 Total Warner Music Group Corp. shareholders deficit (304) (265)				
Total Warner Music Group Corp. shareholders deficit (304) (265)				
	Accumulated other comprehensive income, net	63		53
	Total Warner Music Group Corp. shareholders deficit	(304)		(265)
	Noncontrolling interest	50		54

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Total deficit	(254)	(211)
Total liabilities and deficit	\$ 3,617	\$ 3,779

See accompanying notes.

3

Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

	End Marc 2011			Six Months Ended March 31, 2011 2010 ept per share data)	
Revenues	\$ 682	\$ 666	\$ 1,471	\$ 1,586	
Costs and expenses:					
Cost of revenues	(357)	(329)	(799)	(846)	
Selling, general and administrative expenses (a)	(254)	(259)	(520)	(559)	
Amortization of intangible assets	(55)	(54)	(109)	(110)	
Total costs and expenses	(666)	(642)	(1,428)	(1,515)	
Operating income	16	24	43	71	
Interest expense, net	(47)	(46)	(94)	(97)	
Other expense, net	(1)	(4)	(1)	(3)	
Loss before income taxes Income tax expense	(32) (7)	(26) (2)	(52) (5)	(29) (15)	
Net loss	(39)	(28)	(57)	(44)	
Less: loss attributable to noncontrolling interest	1	3	1	2	
Net loss attributable to Warner Music Group Corp.	\$ (38)	\$ (25)	\$ (56)	\$ (42)	
Net loss per common share attributable to Warner Music Group Corp.:					
Basic	\$ (0.25)	\$ (0.17)	\$ (0.37)	\$ (0.28)	
Diluted	\$ (0.25)	\$ (0.17)	\$ (0.37)	\$ (0.28)	
Weighted average common shares: Basic Dilucted	150.5	149.6	150.2	149.6	
Diluted	150.5	149.6	150.2	149.6	
(a) Includes depreciation expense of:	\$ (11)	\$ (9)	\$ (20)	\$ (18)	

See accompanying notes.

Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Six Months Ended March 31, 2011 (in 1	Six Months Ended March 31, 2010 millions)
Cash flows from operating activities		
Net loss	\$ (57)	\$ (44)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	129	128
Deferred income taxes	(8)	(6)
Impairment of cost-method investment	, ,	1
Non-cash interest expense	6	14
Non-cash stock-based compensation expense	7	5
Other non-cash items	(1)	1
Changes in operating assets and liabilities:		
Accounts receivable	105	136
Inventories	7	6
Royalty advances	(35)	4
Accounts payable and accrued liabilities	(170)	(191)
Accrued interest	1	2
Other balance sheet changes	9	(5)
Net cash (used in) provided by operating activities	(7)	51
Cash flows from investing activities		
Investments and acquisitions of businesses	(57)	(6)
Acquisition of publishing rights	(47)	(29)
Proceeds from the sale of investments		9
Capital expenditures	(22)	(15)
Net cash used in investing activities	(126)	(41)
Cash flows from financing activities		
Distribution to noncontrolling interest holder	(1)	(2)
Net cash used in financing activities	(1)	(2)
Effect of exchange rate changes on cash and equivalents		