

Warner Music Group Corp.
Form 10-Q
May 10, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended 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
incorporation or organization)

13-4271875
(I.R.S. Employer
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 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", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

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

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

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.

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Table of Contents**ITEM 1. FINANCIAL STATEMENTS****Warner Music Group Corp.****Consolidated Balance Sheets (Unaudited)**

	March 31, 2011	September 30, 2010
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	\$ 319	\$ 439
Accounts receivable, less allowances of \$88 and \$111 million	337	434
Inventories	31	37
Royalty advances expected to be recouped within one year	168	143
Deferred tax assets	30	30
Other current assets	54	46
Total 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	1,057
Intangible assets subject to amortization, net	1,103	1,119
Intangible assets not subject to amortization	100	100
Other assets	61	64
Total assets	\$ 3,617	\$ 3,779
Liabilities and Deficit		
Current liabilities:		
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		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 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)
Noncontrolling interest	50	54

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

See accompanying notes.

Table of Contents**Warner Music Group Corp.****Consolidated Statements of Operations (Unaudited)**

	Three Months Ended March 31,		Six Months Ended March 31,	
	2011	2010	2011	2010
	(in millions, except 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	(32)	(26)	(52)	(29)
Income tax expense	(7)	(2)	(5)	(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	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.

Table of Contents**Warner Music Group Corp.****Consolidated Statements of Cash Flows (Unaudited)**

	Six Months Ended March 31, 2011	Six Months Ended March 31, 2010
	(in 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		