

Warner Music Group Corp.
Form 10-Q
August 06, 2009
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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 June 30, 2009

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 August 4, 2009, the number of shares of the Registrant's common stock, par value \$0.001 per share, outstanding was 154,596,051.

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

	June 30, 2009	September 30, 2008
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	\$ 345	\$ 411
Accounts receivable, less allowances of \$129 and \$159	398	538
Inventories	50	57
Royalty advances expected to be recouped within one year	172	174
Deferred tax assets	30	30
Other current assets	54	38
Total current assets	1,049	1,248
Royalty advances expected to be recouped after one year	210	212
Investments	19	155
Property, plant and equipment, net	98	117
Goodwill	1,094	1,085
Intangible assets subject to amortization, net	1,353	1,539
Intangible assets not subject to amortization	100	100
Other assets	66	70
Total assets	\$ 3,989	\$ 4,526
Liabilities and Shareholders' Deficit		
Current liabilities:		
Accounts payable	\$ 170	\$ 219
Accrued royalties	1,192	1,189
Taxes and other withholdings	12	16
Current portion of long-term debt		17
Deferred income	109	117
Other current liabilities	246	313
Total current liabilities	1,729	1,871
Long-term debt	1,935	2,242
Deferred tax liabilities	235	237
Other noncurrent liabilities	232	262
Total liabilities	4,131	4,612
Commitments and Contingencies (See Note 12)		
Shareholders' deficit:		
Common stock (\$0.001 par value; 500,000,000 shares authorized; 154,596,051 and 154,012,885 shares issued and outstanding)		
Additional paid-in capital	598	590
Accumulated deficit	(768)	(686)
Accumulated other comprehensive income, net	28	10
Total shareholders' deficit	(142)	(86)

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Total liabilities and shareholders' deficit	\$	3,989	\$	4,526
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See accompanying notes.

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

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2009	2008	2009	2008
	(in millions, except per share data)			
Revenues	\$ 769	\$ 848	\$ 2,315	\$ 2,637
Costs and expenses:				
Cost of revenues	(431)	(441)	(1,254)	(1,399)
Selling, general and administrative expenses (a)	(258)	(300)	(811)	(935)
Other income, net				3
Amortization of intangible assets	(55)	(56)	(169)	(165)
Total costs and expenses	(744)	(797)	(2,234)	(2,496)
Operating income from continuing operations	25	51	81	141
Interest expense, net	(61)	(43)	(146)	(138)
Minority interest (expense) income	(1)	(2)	6	(4)
Gain on sale of equity investment			36	
Gain on foreign exchange transaction			9	
Impairment of cost-method investments			(29)	
Impairment of equity investment			(10)	
Other income (expense), net	4	(2)	1	(4)
(Loss) income from continuing operations before income taxes	(33)	4	(52)	(5)
Income tax expense	(4)	(13)	(30)	(36)
Loss from continuing operations	(37)	(9)	(82)	(41)
Loss from discontinued operations, net of taxes				(21)
Net loss	\$ (37)	\$ (9)	\$ (82)	\$ (62)
Net loss per common share:				
Basic earnings per share:				
Loss from continuing operations	\$ (0.25)	\$ (0.06)	\$ (0.55)	\$ (0.28)
Loss from discontinued operations				(0.14)
Net loss	\$ (0.25)	\$ (0.06)	\$ (0.55)	\$ (0.42)
Diluted earnings per share:				
Loss from continuing operations	\$ (0.25)	\$ (0.06)	\$ (0.55)	\$ (0.28)
Loss from discontinued operations				(0.14)
Net loss	\$ (0.25)	\$ (0.06)	\$ (0.55)	\$ (0.42)
Weighted average common shares:				
Basic	149.5	148.9	149.4	148.0
Diluted	149.5	148.9	149.4	148.0
(a) Includes depreciation expense of:	\$ (10)	\$ (9)	\$ (27)	\$ (35)

See accompanying notes.

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

	Nine Months Ended June 30, 2009	Nine Months Ended June 30, 2008
	(in millions)	
Cash flows from operating activities		
Net loss	\$ (82)	\$ (62)
Loss from discontinued operations, net of taxes		21
Loss from continuing operations	(82)	(41)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	196	200
Deferred taxes		(5)
Gain on sale of equity investment	(36)	
Gain on foreign exchange transaction	(9)	
Gain on sale of building	(3)	
Impairment of equity investment	10	
Impairment of cost-method investments	29	
Non-cash interest expense	50	35
Non-cash stock-based compensation expense	8	7
Minority interest (income) expense	(6)	4
Other non-cash items		(1)
Changes in operating assets and liabilities:		
Accounts receivable	129	93
Inventories	5	4
Royalty advances	(16)	(29)
Accounts payable and accrued liabilities	(55)	(59)
Other balance sheet changes	(22)	(23)
Net cash provided by operating activities	198	185
Cash flows from investing activities		
Repayments by (loans to) third parties	3	(3)