Warner Music Group Corp.
Form 10-K
December 10, 2015

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, 2015

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.)
1633 Broadway New York, NY	10019

(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 (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

There is no public market for the Registrant's common stock. As of December 10, 2015 the number of shares of the Registrant's common stock, par value $0.001 per share, outstanding was 1,055. All of the Registrant's common stock is owned by affiliates of Access Industries, Inc. The Registrant has filed all Exchange Act reports for the preceding 12 months.

WARNER MUSIC GROUP CORP.

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ITEM 1. 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. Words such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," or "continue" or the negative thereof or variations of s 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"). In connection with the Merger, the Company delisted its common stock from the NYSE. The Company continues to file with the SEC current and periodic reports that would be required to be filed with the SEC pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") in accordance with certain covenants contained in the instruments covering its outstanding indebtedness. All of the Company's common stock is owned by affiliates of Access Industries, Inc.

PLG Acquisition

On July 1, 2013, the Company completed its acquisition (the "PLG 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 PLG Acquisition.

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 United States. We generated revenues of $2.966 billion during the fiscal year ended September 30, 2015.

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 and streaming) formats. We have one of the world's largest and most diverse recorded music catalogs, including 30 of the best-selling albums of all time in the U.S. (based on sale of 10 million or more units). Our Recorded Music business also benefits from additional revenue streams associated with artists, including merchandising, fan clubs, 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 $2.501 billion during the fiscal year ended September 30, 2015.

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 $482 million during the fiscal year ended September 30, 2015.

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 consolidated 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. PLG included 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 was comprised of the historic Parlophone label and Chrysalis and Ensign labels in the U.K., 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 included 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 Minogue, M. Pokora, Magic System, Pablo Alborán, 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 PLG Acquisition. WMG has rebranded these businesses, respectively, as Warner Classics and Erato.

Warner Music Group is today home to a collection of record labels, including Asylum, Atlantic, Big Beat, Canvasback, Eastwest, Elektra, Erato, FFRR, Fueled by Ramen, Nonesuch, Parlophone, Reprise, Rhino, Roadrunner, 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 expenditure maintenance requirements are predictable. In order to improve operating efficiency, in 2013 we began a long-term capital expenditure plan to upgrade our IT systems. We expect to continue to make investments to upgrade our IT systems in fiscal 2016 as a result of this plan. In both fiscal years 2014 and 2015, we also incurred expenditures related to the relocation of our corporate headquarters. 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 and digital streaming of both audio and video content. We have established ourselves as a leader in the music industry’s transition to the digital era by expanding our distribution channels through strong partnerships and developing innovative products and services to further leverage our content and rights. For the fiscal year ended September 30, 2015, digital revenue represented approximately 42% of our total revenue versus 40% for the fiscal year ended September 30, 2014.

We have integrated the development of innovative digital products and strategies throughout our business and have established a culture of product innovation. Through our digital initiatives we have established strong relationships with our customers and have 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 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 through the PLG Acquisition. 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 and continuing to diversify our revenue mix. At the same time, management has remained vigilant in managing costs and maintaining financial flexibility. During fiscal 2013, our management team successfully completed the PLG Acquisition and related financing. In fiscal 2014, management completed a refinancing of our debt, lowering interest expenses. 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 will improve over time as we drive users and engagement across current and emerging distribution channels. 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 develop new deal structures and product offerings to take advantage of new distribution channels.

Capitalize on Digital Distribution. The growth of digital formats will 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. Legitimate digital music services offer ease of use, discovery, quality, portability and seamlessness relative to illegal alternatives. The latest annual survey conducted by MusicWatch shows that legitimate digital music offerings have attracted large numbers of consumers. According to MusicWatch, a projected 37 million U.S. consumers age 13 and over bought digital music downloads in 2014, while a projected 133 million consumers age 13 and over streamed music online, through ad-supported services or paid subscriptions, over the same period.

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 twelve months ending on September 30, 2015, our Recorded Music digital revenue exceeded physical revenue. Research conducted by MusicWatch covering activity in the second calendar quarter of 2015 shows that roughly 40% of all U.S. Internet consumers age 13 and over used ad-supported Internet radio services like the free version of Pandora during the quarter and close to 60% used online video services like YouTube to watch or listen to music videos; close to a quarter listened to music via ad-supported iterations of dedicated on-demand audio streaming services like Spotify, while usage of paid subscription versions of Internet radio and on-demand music streaming services approached the 10% mark during the period. In addition, with the number of total smartphones in use around the world expected to reach 3.9 billion by 2019 according to forecasts from PricewaterhouseCoopers, we expect that mobile will continue to represent significant opportunity for music-based content. Figures from comScore's July 2015 MobiLens Plus data release show that the uptake of music among users of such phones is significant: according to the data, more than half of existing smartphone users in the U.S. and 45% of their counterparts in the U.K., listened to music downloaded and stored or streamed on their handsets from services such as iTunes, Pandora, iHeartRadio, Deezer and Spotify, among other sources, during the month. We believe that the demand for music-related products, services and applications that are optimized for smartphones and tablets will continue to grow with the further 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 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 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 or leveraging more effective IT systems where these initiatives provide additional cost savings. We are constantly monitoring our costs and seeking additional 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 and takedowns of infringing mobile applications. 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, based on data provided by recognized third-party research firms comScore and Nielsen, shows that global piracy is on the decline, with the number of fixed-line pirate users falling from over 30% of the global Internet population in July 2012 to 20% of the Internet population based on the most recent estimates published in the IFPI Digital Music Report 2015.

Recorded Music (84%, 83% and 83% of consolidated revenues, before intersegment eliminations, for fiscal years ended September 30, 2015, 2014 and 2013)

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 United States, our Recorded Music operations are conducted principally through our major record labels—Warner Bros. Records and Atlantic Records. Our Recorded Music operations also include Rhino, a division that specializes in marketing our music catalog through compilations and reissuances of previously released music and video titles. We also conduct our Recorded Music operations through a collection of additional record labels, including, Asylum, Big Beat, Canvasback, Eastwest, Elektra, Erato, FFRR, Fueled by Ramen, Nonesuch, Parlophone, Reprise, Roadrunner, Sire, Warner Classics, Warner Music Nashville and Word.

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

Our Recorded Music distribution operations include Warner-Elektra-Atlantic Corporation (“WEA Corp.”), which markets and sells music and video products to retailers and wholesale distributors; Alternative Distribution Alliance (“ADA”), which distributes the products of independent labels to retail and wholesale distributors; various distribution centers and ventures operated internationally; and an 80% interest in Word, which specializes in the distribution of music products in the Christian retail marketplace.

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

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

We have diversified our revenues beyond our traditional businesses by entering into expanded-rights deals with recording artists in order to partner with artists in other aspects of their careers. Under these agreements, we provide services to and participate in artists’ activities outside the traditional recorded music business such as touring, merchandising and sponsorships. We have built artist services capabilities and platforms for exploiting this broader set of music-related rights and participating more widely in the monetization of the artist brands we help create.

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

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.

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.

Representative Worldwide Recorded Music Artists

3Oh!3	Death Cab for Cutie	Katherine Jenkins	Nickelback	Skillet
A-ha	Deftones	Jethro Tull	Stevie Nicks	Skrillex
Air	Jason Derulo	Johnny Hallyday	Nico and Vinz	Slipknot
Airbourne	Disturbed	Julien Clerc	Notorious B.I.G.	The Smiths
Jean-Louis Aubert	Donkeyboy	k.d. lang	Paolo Nutini	Spandau Ballet
Avenged Sevenfold	The Doors	Kid Rock	Opeth	Regina Spektor
B.o.B	Dream Theater	Killswitch Engage	Pablo Alborán	Staind
Frankie Ballard	Duran Duran	Kobukuro	Panic! At the Disco	Rod Stewart
The Baseballs	Eagles	Korn	Pantera	The Streets
Jeff Beck	Brett Eldrege	Kraftwerk	Paramore	Alain Souchon
Bee Gees	Eliza Doolittle	Jana Kramer	Laura Pausini	Stone Sour
Biffy Clyro	Missy Elliott	Larry the Cable Guy	Pendulum	Stone Temple Pilots
Big Smo	The Enemy	Hugh Laurie	Christina Perri	Superfly
Billy Talent	Enya	Led Zeppelin	Peter Fox	Cole Swindell
Birdy	Estelle	Ligabue	Tom Petty	Mariya Takeuchi
The Black Keys	Jimmy Fallon	Lily Allen	Pink Floyd	Serj Tankian
Black Sabbath	Flaming Lips	Linkin Park	Plan B	Tegan and Sara
Blur	Fleetwood Mac	Lupé Fiasco	Plies	Tina Turner
Miguel Bosé	Flo Rida	Lynyrd Skynyrd	Primal Scream	Tinie Tempah
Michelle Branch	Aretha Franklin	M. Pokora	Prince	Theory of a Deadman
Bruno Mars	Foreigner	Machine Head	R.E.M.	Rob Thomas
Michael Bublé	fun.	Christophe Maé	Radiohead	Rush
Camille	Genesis	Magic System	The Ramones	T.I.
The Cars	Gloriana	Maná	Randy Travis	Theophilus London
Cee Lo Green	Gnarls Barkley	Mastodon	The Ready Set	Trans-Siberian Orchestra
Tracy Chapman	Gojira	matchbox twenty	Red Hot Chili Peppers	Trey Songz
Ray Charles	Goo Goo Dolls	MC Solaar	Damien Rice	Jolin Tsai
Charlie XCX	Josh Groban	Megadeath	Kenny Rogers	Twisted Sister
Cher	Grateful Dead	Bette Midler	Roxette	Uncle Kracker
Chicago	Green Day	Luis Miguel	Rudimental	Van Halen
Eric Clapton	Gorillaz	Kylie Minogue	Rumer	Paul Wall
Cobra Starship	Gucci Mane	Janelle Monáe	Todd Rundgren	Westernhagen
Coldplay	David Guetta	The Monkees	Alejandro Sanz	Wilco
Phil Collins	Gym Class Heroes	Ashley Monroe	Jill Scott	Wiz Khalifa
Alice Cooper	Halestorm	Jason Mraz	Seal	The Wombats
The Corrs	Hard-Fi	Murderdolls	Sean Paul	Neil Young
Crosby, Stills & Nash	Emmylou Harris	Muse	Seeed	Young the Giant
Sheryl Crow	Hunter Hayes	Musiq Soulchild	Ed Sheeran	Youssou N'Dour
Daft Punk	Faith Hill	My Chemical Romance	Blake Shelton	ZZ Top
Dan + Shay	Iron Maiden	Nek	Shinedown	
Danger Mouse	Jaheim	New Order	Sigur Rós	
David Bowie	James Blunt	Never Shout Never	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.

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.

Manufacturing, Packaging and Physical Distribution

Technicolor SA, a technology provider for the media and entertainment sectors, which recently acquired the North American optical disc manufacturing and distribution assets from Cinram Group Inc. (collectively, with its affiliates and subsidiaries, “Cinram”), is currently our primary supplier of manufacturing, packaging and physical distribution services in the U.S. and Canada. We also have arrangements with other suppliers and distributors, in addition to Cinram, as part of our manufacturing, packaging and physical distribution network throughout the rest of the world. We believe that the pricing terms of our manufacturing, packaging and physical distribution agreements reflect market rates.

Sales and Digital Distribution

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 service providers, which sell digital music on a per-album or per-track basis or offer subscription and streaming services. Various mobile service providers also offer their subscribers the ability to stream or download music on mobile devices. We currently partner with a broad range of online service providers and mobile service providers, such as Amazon, Apple, Deezer, KKBox, Rhapsody, Spotify, Telefonica, TIM, 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 agreements enables us to maintain the flexibility that we need given the continuing changes to digital business models.

We enter into agreements with these 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 these service providers in an accessible form. Our agreements with these service providers establish our fees for the distribution of our product, which vary based on the type of product being distributed. We typically receive accounting reports from these service providers on a monthly basis, detailing the distribution 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 (16%, 17% and 17% of consolidated revenues, before intersegment eliminations, for fiscal years ended September 30, 2015, 2014 and 2013)

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

Our Music Publishing operations are conducted principally through Warner/Chappell, our global music publishing company headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. We own or control rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, our award-winning catalog includes over 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. Through consistent and tactical talent investment, Warner/Chappell has developed a broad array of talent across all genres, resulting in Warner/Chappell being awarded ASCAP’s Top Publisher of the Year for Latin Music in 2015, to add to the successes of Top Publisher in each of Pop, Country and Urban categories in 2014. We have an extensive production music library collectively branded as Warner/Chappell Production Music.

Music Publishing Portfolio

Representative Songwriters

Steve Aoki	Brett James	Radiohead
Beyoncé	Jay Z	The Ramones
Belly	Ian Kirkpatrick	Red Hot Chili Peppers
Michelle Branch	Kool & the Gang	R.E.M.
Brody Brown	Lady Antebellum	Pricilla Renea
Bruno Mars	Kendrick Lamar	Damien Rice
Michael Bublé	Led Zeppelin	Rihanna
Captain Cuts	Lil Wayne	Liz Rose
Harry Chapin	Little Big Town	Mort Shuman
Eric Clapton	Tove Lo	Stephen Sondheim
Dido	Madonna	Staind
Sean Douglas	Maná	A Thousand Horses
Dream	Johnny Mercer	Justin Trantor
Dr. Dre	George Michael	Twenty One Pilots
Echosmith	Julia Michaels	Van Halen
fun.	Nick Monson	Roger Waters
Nicole Galyon	Van Morrison	Kurt Weill
Kenneth Gamble and Leon Huff	Muse	Barry White
George and Ira Gershwin	Kacey Musgraves	Mike Will
Barry Gibb	Dave Mustaine	John Williams
Brantley Gilbert	Tim Nichols	Lucinda Williams
Ashley Gorley	Nickelback	Pharrell Williams
Green Day	Paramore	Wiz Kalifa
Halestorm	Katy Perry	Wolf Cousins
Jerome Harmon	Plain White T's	Rob Zombie
Ben Hayslip	Cole Porter	

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
Jingle Bell Rock	I Only Want To Be With You	Killing Me Softly
Misty	Save The Last Dance For Me	Layla
Night And Day	This Magic Moment	Listen To The Music
Summertime	Viva Las Vegas	Moondance
That's All Right	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	Believe	American Idiot	Drunk In Love
Endless Love	Creep	Crazy	Firework
Eye Of The Tiger	End Of The Road	Crazy In Love	Glad You Came
Flashdance	Gonna Make You Sweat	Gotta Be Somebody	Grenade
Indiana Jones Theme	Livin' La Vida Loca	Hey There Delilah	Just The Way You Are
Jump	Losing My Religion	Home	Let It Go
Like A Prayer	Macarena	I Kissed A Girl	See You Again
Morning Train	Smooth	Rockstar	Somebody That I Used To Know
Slow Hand	Sunny Came Home	Umbrella	Uptown Funk
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

- Broadcast of music on television, radio and cable
- 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, Vinyl, 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

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Digital: sale of recorded music in various digital formats

Digital recordings such as digital downloads and streaming services

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.

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 2014, the three largest major record companies were Universal Music, Sony Music and us, which collectively accounted for 74% of worldwide recorded music sales. There are many mid-sized and smaller players in the industry that accounted for the remaining 26%, including independent music companies. Universal Music was the market leader with a 34% worldwide market share in 2014 after absorbing the bulk of the recorded music assets of the former EMI in late 2012, followed by Sony Music with a 23% share. We held a 17% share of worldwide recorded music sales globally in 2014.

The music publishing business is also highly competitive. The top three music publishers collectively accounted for 65% of the market. Based on Music & Copyright's most recent estimates published in April 2015, Sony/ATV was the market leader in music publishing in 2014 with a 30% share (reflecting its administration of the EMI music publishing assets). Universal Music Publishing, having acquired BMG Music Publishing Group in 2007, was the second largest music publisher with a 23% share, followed by us (Warner/Chappell) at 13%. There are many mid-sized and smaller players in the industry that represent the balance of the market, including many individual songwriters who publish their own works.

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 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, 2015, we employed approximately 4,211 persons worldwide, including temporary and part-time employees. None of our employees in the U.S. are 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

Financial and other information by segment, and relating to foreign and domestic operations, and customer concentration for each of the last three fiscal years is set forth in Note 15 to the Consolidated Audited Financial Statements.

INDUSTRY OVERVIEW

Recorded Music

Recorded music is one of the primary mediums of entertainment for consumers worldwide and in calendar year 2014, according to IFPI, generated $15.0 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 the third calendar quarter of 2015 (i.e., the week ending October 1, 2015), according to SoundScan, 53% of all calendar year-to-date U.S. album unit sales were from recordings more than 18 months old, with 44% from recordings more than three years old.

According to IFPI, the top five territories (the U.S., Japan, Germany, the U.K., and France) collectively accounted for 74% of the related sales in the recorded music market in calendar year 2014. The U.S., which is the most significant exporter of music, is also the largest territory for recorded music sales, constituting 33% of total calendar year 2014 recorded music sales on a trade value basis. The U.S. and Japan are largely local music markets, with 93% and 83% of their calendar year 2014 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 physical music 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. 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 17% 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 2014, 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. unit sales and combined they accounted for 69% of total industry unit sales in calendar year 2014. In addition, revenues resulting from music streaming services now represent a significant share of the overall recorded music market in the U.S. Data published by the RIAA shows that when the streaming category was taken into account, it was responsible for 27% of total estimated industry retail value in calendar year 2014. In terms of genre, rock remains the most popular style of music in the U.S. overall, representing 29% of the music purchased and consumed on streaming services in the U.S. in calendar year 2014, as captured and calculated by Nielsen Entertainment, although genres such as rap/hip-hop, R&B, country, pop, electronic/dance music (EDM), and Latin music are also popular and outperform in specific formats.

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 2014, the physical business experienced a 7% year-over-year decline on a value basis. Performance in calendar year 2015 thus far suggests that declines may be sustained this year as well. According to SoundScan, through the end of calendar Q3 2015 (i.e., the week ending October 1, 2015), calendar year-to-date U.S. recorded music album unit sales (excluding sales of digital tracks) were down 4% 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 6% in overall album unit sales calendar year-to-date through Q3 2015, reflecting greater softness in digital track sales compared to full album sales this year. 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.

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 filesharing 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 more than 40 million infringing music files for removal online in 2014, a fraction of the tens of billions of files that are estimated to be downloaded illegally.

Industrial piracy (also called counterfeiting or physical piracy) involves mass production of illegal CDs 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. At that time, the IIPA believed that piracy of records and music was most prevalent in territories such as Indonesia, China, the Philippines, Mexico, India and Argentina, where piracy levels were 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 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 2013 showed that about 1 in 10 U.S. Internet users aged 13 or older who 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, as well as moral implications. Research conducted by Ipsos across 13 countries, as cited in the IFPI Digital Music Report 2015, found that a majority (52%) of respondents agreed that “downloading or streaming without the copyright owners’ permission was theft.”

Legal: In conjunction with its educational efforts, the industry has taken aggressive legal action against commercial file-sharing sites, as well as cooperating with law-enforcement when criminal cases are appropriate. In April 2015, the industry reached a settlement agreement with Grooveshark that completely shut down its unauthorized streaming service. In September, the file-sharing sites Sharebeast and Albumjams.com, which were sources of a large number of pre-release leaks and millions of unpaid downloads, were shut down by the FBI. In addition, the industry has been successful in obtaining blocking orders in many countries, including the U.K., France, Italy, South Korea, Belgium, Spain and Portugal, that make it more difficult for end users to access infringing sites, such as Bit Torrent sites. Finally, in both China and Russia, the courts have been more willing to issue rulings to combat unauthorized distribution. Such rulings allow for the potential growth of licensed services in these countries, which have been stymied by rampant content piracy.

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 revenue stream and a potential inhibitor of piracy. The music industry has been encouraged by the proliferation and 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 streaming music services began to be established in 2001 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 and ad-supported and subscription streaming music services, offering a variety of models, including per-track pricing, per-album pricing and monthly subscriptions. According to IFPI in the 2015 edition of their annual “Recording Industry in Numbers” publication, there are over 400 legal digital music services providing alternatives to illegal filesharing in markets around the world, with major international services operating in more than 150 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 contained piracy levels. A survey conducted by MusicWatch covering activity in the second calendar quarter of 2015 showed that incidence of peer-to-peer (P2P) sharing of music among U.S. Internet users aged 13 or older was essentially flat versus earlier quarters. The survey also reflected that other types of unauthorized music sharing, such as the downloading of music via mobile apps, and exchanging of music files via email and instant messaging (IM) services, was stable compared to the fourth calendar quarter of 2014.

Internationally, we believe governmental initiatives 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 governmental 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 current U.S. statutory mechanical 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 streaming. The worldwide professional music publishing market was estimated to have generated $4.05 billion in revenues in calendar year 2014 according to figures published in April 2015 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.

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 has experienced negative growth rates on a global basis since 1999 and the worldwide recorded music market has contracted considerably. 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 and streaming of digital music and revenue streams from these new channels have emerged. These new digital revenue streams are important as they are partially 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, concert promotion, 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. Despite these factors, the industry continues to be negatively 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 revenues 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. Digital downloads remain a key revenue stream for the recorded music industry, and there has been ample growth in the streaming category, resulting in the latter's increasing contribution to overall industry digital revenues. According to IFPI, digital downloads accounted for 52% of digital revenues in 2014. Streaming revenue, which includes revenue from ad-supported and subscription services, accounted for 32% of digital revenues in 2014, up 7 percentage points year-over-year. Although revenues from digital downloads fell by 8% in 2014, the decline was offset by an increase in streaming revenue, helping digital revenues grow by 6.9%. Streaming models comprise a range of margins. For some streaming models, our margins are superior to those for downloads and for others, our margins are slightly less. We expect these trends to continue to impact our results for the foreseeable future.

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 or profit margins associated with new digital business, including the impact of ad-supported music services, some of which may be able to avail themselves of "safe harbor" defenses against copyright infringement actions under copyright laws. 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, as well as online retailers and digital music services such as Amazon, Apple Music 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 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."

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. 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 to consumers.

We may have difficulty addressing the threats to our business associated with digital piracy.

The combined effect of the decreasing cost of electronic and computer equipment and related technology such as 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, 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, data provided by comScore and Nielsen and cited by IFPI in IFPI's 2015 Digital Music Report indicates that 20% of Internet users globally still access unauthorized digital sites/services on desktop-based devices 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" and mobile app-based downloading of unauthorized content. As the business shifts to streaming music or access models, piracy in these models is increasing. For example, the practice of "stream-ripping," where websites or software programs enable end-users to obtain an unauthorized copy of the audio file associated with a music video, is a growing practice among young people and in parts of the world with high mobile data costs. A substantial portion of our revenue comes from the sale of audio products and streaming services 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 and subscriptions 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 was valued at $30 billion to $75 billion and IFPI's 2015 Digital Music Report cited research conducted by MediaLink on behalf of the Digital Citizens Alliance that placed advertising revenues generated by 596 piracy sites at $227 million. 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. 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 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 comes 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 mix of digital services is changing and not all services will be equally remunerative. Ad-supported music services, some of which may be able to avail themselves of "safe harbor" defenses against copyright infringement actions under copyright laws, may be substitutional for more remunerative paid services. 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. 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 digital music services 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 the majority of the legitimate digital music track download business in the United States according to third-party estimates. If Apple's iTunes were to adopt a lower pricing model or if there were structural changes 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 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, 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, motion pictures and videogames in physical and digital formats.

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. For example, our results for the fiscal year 2015 were impacted by the continued strengthening of the U.S. dollar against most currencies. See "—Unfavorable currency exchange rate fluctuations could adversely affect our results of operations." 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 employment 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 United States, 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 United States 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 United States, mechanical and performance royalty rates are typically negotiated on an industry-wide basis. In most territories outside the United States, 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 United States 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. In January 2014, the Copyright Royalty judges announced the commencement of a proceeding to determine the rates and terms for non-interactive webcasting in the United States for the period running from 2016 to 2020. We are unable to predict the outcome of this proceeding, but any reduction in the rates would adversely affect our Recorded Music business. 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.

As of September 30, 2015, we had \$1.632 billion of goodwill and \$119 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, 2015, of the recoverability of its goodwill and indefinite-lived intangibles as of September 30, 2015, 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 $2.514 billion of definite-lived intangible assets as of September 30, 2015. Financial Accounting Standard 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. No such events or circumstances were identified during the year ended September 30, 2015. 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, 61% of our revenues related to operations in foreign territories for the fiscal year ended September 30, 2015. From time to time, we enter into foreign exchange contracts to hedge the risk of unfavorable foreign currency exchange rate movements. During the current fiscal year, 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.

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. Such legislation could result in certain of our existing contracts with artists being declared unenforceable, or may restrict the terms under which we enter into contracts with artists in the future, either of which could adversely affect our results of operations. 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 our 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) have the opportunity to terminate our U.S. rights in musical compositions. However, we believe the effect of any potential termination 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;
- 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.

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 outsource a significant portion of our IT infrastructure functions to a third-party. This outsourcing initiative is 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 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 systems. 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 systems. 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.

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 addition, as PLG had meaningful operational overlap with our existing business we implemented a restructuring and integration plan and achieved cost savings in conjunction with the PLG Acquisition.

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 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.

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, privacy and data security laws and regulations around the world are being implemented rapidly and evolving. These new and evolving laws are likely to result in greater compliance burdens for companies with global operations. 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 and our music-based content, security information breaches through cyber security attacks or otherwise could damage our reputation with customers, employees, vendors and artists, and we could incur substantial additional costs, become subject to litigation and our results of operations and financial condition could be adversely affected. 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. We may also be subject to cyber-attacks that target our music-based content, including not-yet-released songs or albums. The theft and premature release of this music-based content may adversely affect our reputation with current and potential artists and adversely impact our results of operations and financial condition. 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.

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, 2015, our total consolidated indebtedness, including the current portion, was $2.994 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 $5 million as of September 30, 2015).

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 investments and 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 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 outstanding notes and the 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, 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 Senior 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 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 our 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 Senior 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.

Our ability to incur secured indebtedness is subject to compliance with certain secured leverage ratios that are calculated as of the date of incurrence. The amount of secured indebtedness that we are able to incur and the timing of any such incurrence under these ratios vary from time to time and are a function of several variables, including our outstanding indebtedness and our results of operations calculated as of specified dates or for certain periods.

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.

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 1633 Broadway, New York, New York 10019, under a long-term lease ending July 31, 2029. The lease also includes a single option for us to extend the term for either five years or ten 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 consolidated employees formerly located at 75 Rockefeller Center, 1290 Avenue of the Americas and other smaller locations in New York City into our headquarters at 1633 Broadway. 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. 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

Pricing of Digital Music Downloads

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

Upon remand to the District Court, all defendants, including the Company, filed a renewed motion to dismiss challenging, among other things, plaintiffs' state law claims and standing to bring certain claims. The renewed motion was based mainly on arguments made in defendants' original motion to dismiss, but not addressed by the District Court. On July 18, 2011, the District Court granted defendants' motion in part, and denied it in part. Notably, all claims on behalf of the CD-purchaser class were dismissed with prejudice. However, a wide variety of state and federal claims remain for the class of Internet download purchasers. Plaintiffs filed an operative consolidated amended complaint on August 31, 2011. Pursuant to the terms of an August 15, 2011 stipulation and order, the case is currently in discovery. Disputes regarding the scope of discovery are ongoing. Plaintiffs filed a Class Certification brief on March 14, 2014 and an amended Class Certification brief on October 12, 2015. The Company's opposition to the amended brief is due February 9, 2016 and the plaintiffs' reply in support of the brief is due June 8, 2016. The Company filed its answer to the fourth amended complaint on October 9, 2015. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Regardless of the merits of the claims, this and any related litigation could continue to be costly, and divert the time and resources of management. The potential outcomes of these claims that are reasonably possible cannot be determined at this time and an estimate of the reasonably possible loss or range of loss cannot presently be made.

Other Matters

In addition to the matters discussed above, the Company is involved in various litigation and regulatory proceedings arising in the normal course of business. Where it is determined, in consultation with counsel based on litigation and settlement risks, that a loss is probable and estimable in a given matter, the Company establishes an accrual. In 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, the Company cannot predict with certainty the outcome of any litigation or the potential for future litigation. As such, the Company continuously monitors these proceedings as they develop and adjusts any accrual or disclosure as needed. Regardless of the outcome, litigation could have an adverse impact on the Company, including the Company's brand value, because of defense costs, diversion of management resources and other factors and it could have a material effect on the Company's results of operations for a given reporting period.

ITEM 4. MINE SAFETY DISCLOSURES

Not Applicable.

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 10, 2015, 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, 2015, 2014 or 2013. 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.

ITEM 6. SELECTED FINANCIAL DATA

Our summary balance sheet data as of September 30, 2015 and 2014, and the statement of operations and other data for the fiscal years ended September 30, 2015, 2014 and 2013 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. In addition, in accordance with United States Generally Accepted Accounting Principles (“U.S. 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.

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

	Successor					Predecessor
	Fiscal Year Ended September 30, 2015	Fiscal Year Ended September 30, 2014	Fiscal Year Ended September 30, 2013	Fiscal Year Ended September 30, 2012	From July 20, 2011 through September 30, 2011	From October 1, 2010 through July 19, 2011
	(in millions)					
Statement of Operations Data:						
Revenues	$2,966	$ 3,027	$ 2,871	$ 2,780	$ 556	$ 2,311
Net loss attributable to Warner Music Group Corp. (1) (2)	(91)	(308)	(198)	(112)	(31)	(174)
Diluted loss per common share (3)						(1.15)
Dividends per common share						—
Balance Sheet Data (at period end):						
Cash and equivalents	$246	$ 157	$ 155	$ 302	$ 154	
Total assets	5,671	5,954	6,252	5,278	5,380	
Total debt (including current portion of long-term debt)	2,994	3,030	2,867	2,206	2,217	
Warner Music Group Corp. equity (deficit)	221	371	726	927	1,065	
Cash Flow Data:						
Cash flows provided by (used in):						
Operating activities	$222	$ 130	$ 159	$ 209	$ (64)	$ 12

Investing activities	(95)	(155)	(808)	(58)	(1,292)	(155)
Financing activities	(19)	37	511	(3)	1,199	5
Capital expenditures	(63)	(76)	(34)	(32)	(11)	(37)

(1) Net loss attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2015 includes $2 million of PLG restructuring charges and $5 million of PLG-related professional fees and integration costs. Net loss attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2014 includes $50 million of PLG restructuring charges, $59 million of PLG-related professional fees and integration costs and loss on extinguishment of debt of $141 million. 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 PLG Acquisition, $22 million of PLG restructuring charges, and $43 million of PLG-related 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.

(2) Net loss attributable to Warner Music Group Corp. includes severance charges unrelated to the PLG Acquisition of $6 million, $7 million, $11 million, $42 million, $9 million and $29 million for the fiscal year ended September 30, 2015, the fiscal year ended September 30, 2014, the fiscal year ended September 30, 2013, the fiscal year ended September 30, 2012, the period from July 20, 2011 through September 30, 2011, and the period from October 1, 2010 through July 19, 2011, respectively.

(3) 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.

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, 2015 (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 terminology. 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 Parlophone Label Group) 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 and benefits from our acquisition of Parlophone Label Group, 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 debt or notes in open market purchases, privately or otherwise, the impact on us of potential strategic transactions, our ability to fund our future capital needs and the effect of litigation on us. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct.

There are a number of risks and uncertainties that could cause our actual results to differ materially from the forward-looking statements contained in this 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 digital piracy;
- the significant threat posed to our business and the music industry by organized industrial piracy;
- the popular demand for particular recording artists and/or songwriters and albums and the timely completion of albums by major recording artists and/or songwriters;
- the diversity and quality of our portfolio of songwriters;
- the diversity and quality of our album releases;
- the impact of legitimate channels for digital distribution of our creative content;
- our dependence on a limited number of digital music services, 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;
risks associated with our non-U.S. operations, including limited legal protections of our intellectual property rights and restrictions on the repatriation of capital;
significant fluctuations in our operations and cash flows from period to period;
our inability to compete successfully in the highly competitive markets in which we operate;
trends, developments or other events in some foreign countries in which we operate;
local economic conditions in the countries in which we operate;
our failure to attract and retain our executive officers and other key personnel;
the impact of 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;
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;
our ability to maintain the security of information relating to our customers, employees and vendors and our music-based content;
the fact that we have engaged in substantial restructuring activities in the past, and may need to implement further restructurings in the future and our restructuring efforts may not be successful or generate expected cost-savings;
the impact of our substantial leverage on our ability to raise additional capital to fund our operations, on our ability to react to changes in the economy or our industry and on our ability to meet our obligations under our indebtedness;
the ability to generate sufficient cash to service all of our indebtedness, and the risk that we may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful;
the fact that our debt agreements contain restrictions that limit our flexibility in operating our business;
our indebtedness levels, and the fact that we may be able to incur substantially more indebtedness which may increase the risks created by our substantial indebtedness;
the significant amount of cash required to service our indebtedness and the ability to generate cash or refinance indebtedness as it becomes due depends on many factors, some of which are beyond our control;
risks of downgrade, suspension or withdrawal of the rating assigned by a rating agency to us could impact our cost of capital;
risks relating to Access, which indirectly owns all of our outstanding capital stock, and controls our company and may have conflicts of interest with the holders of our debt or us in the future. Access may also enter into, or cause us to enter into, strategic transactions that could change the nature or structure of our business, capital structure or credit profile;
risks related to evolving regulations concerning data privacy which might result in increased regulation and different industry standards;
changes in law and government regulations; and
risks related to other factors discussed under “Risk Factors” of this 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.

INTRODUCTION

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

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

Management’s discussion and analysis of results of operations and financial condition (“MD&A”) is provided as a supplement to the 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 fiscal years ended September 30, 2015, September 30, 2014 and September 30, 2013. 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 fiscal years ended September 30, 2015, September 30, 2014 and September 30, 2013, as well as a discussion of our financial condition and liquidity as of September 30, 2015. The discussion of our financial condition and liquidity includes a summary of the key debt compliance measures under our debt agreements.
- 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 2 to the accompanying Consolidated Financial Statements.

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. 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 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 revenue on a constant-currency basis in addition to reported revenue helps improve the ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant-currency information compares revenue between periods as if exchange rates had remained constant period over period. We use revenue on a constant-currency basis as one measure to evaluate our performance. We calculate constant currency by calculating prior-year 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, revenue reported in accordance with U.S. GAAP. Revenue on a constant-currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not a measure of performance presented in accordance with U.S. GAAP.

OVERVIEW

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

Recorded Music Operations

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

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

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

Our Recorded Music distribution operations include Warner-Elektra-Atlantic Corporation ("WEA Corp."), which markets and sells music and video products to retailers and wholesale distributors; Alternative Distribution Alliance ("ADA"), which distributes the products of independent labels to retail and wholesale distributors; various distribution centers and ventures operated internationally; and an 80% interest in Word, which specializes in the distribution of music products in the Christian retail marketplace.

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

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

We have diversified our revenues beyond our traditional businesses by entering into expanded-rights deals with recording artists in order to partner with artists in other aspects of their careers. Under these agreements, we provide services to and participate in artists’ activities outside the traditional recorded music business such as touring, merchandising and sponsorships. We have built artist services capabilities and platforms for exploiting this broader set of music-related rights and participating more widely in the monetization of the artist brands we help create.

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

Recorded Music revenues are derived from four main sources:

- Physical: the rightsholder receives revenues with respect to sales of physical products such as CDs, vinyl and DVDs;
- Digital: the rightsholder receives revenues with respect to digital download services, streaming services and other online and mobile digital music services;
- Artist services and expanded-rights: the rightsholder receives revenues with respect to artist services businesses and our participation in expanded-rights associated with our artists, including sponsorship, fan clubs, artist websites, merchandising, touring, concert promotion, ticketing and artist and brand management; and
- Licensing: the rightsholder receives royalties or fees for the right to use sound recordings in combination with visual images such as in films or television programs, television commercials and videogames; the rightsholder also receives royalties if sound recordings are performed publicly through broadcast of music on television, radio and cable, and in public spaces such as shops, workplaces, restaurants, bars and clubs.

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

- Artist and repertoire costs—the costs associated with (i) paying royalties to artists, producers, songwriters, other copyright holders and trade unions; (ii) signing and developing artists; and (iii) creating master recordings in the studio;
- Product costs—the costs to manufacture, package and distribute products to wholesale and retail distribution outlets, the royalty costs associated with distributing products of independent labels to wholesale and retail distribution outlets, as well as the costs related to our artist services business;
- Selling and marketing expenses—the costs associated with the promotion and marketing of artists and recorded music products, including costs to produce music videos for promotional purposes and artist tour support; and
- General and administrative expenses—the costs associated with general overhead and other administrative expenses.

Music Publishing Operations

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

Our Music Publishing operations are conducted principally through Warner/Chappell, our global music publishing company headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. We own or control rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, our award-winning catalog includes over 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. Through consistent and tactical talent investment, Warner/Chappell has developed a broad array of talent across all genres, resulting in Warner/Chappell being awarded ASCAP’s Top Publisher of the Year for Latin Music in 2015, to add to the successes of Top Publisher in each of Pop, Country and Urban categories in 2014. We have an extensive production music library collectively branded as Warner/Chappell Production Music.

Music Publishing revenues are derived from five main sources:

- Performance: the rightsholder receives revenues if the composition is performed publicly through broadcast of music on television, radio and cable, live performance at a concert or other venue (e.g., arena concerts and nightclubs), and performance of music in staged theatrical productions;
- Mechanical: the rightsholder receives revenues with respect to compositions embodied in recordings sold in any physical format or configuration such as CDs, vinyl and DVDs;
- Digital: the rightsholder receives revenues with respect to compositions embodied in recordings sold in digital download services, streaming services, other online and mobile digital music services and digital performance;

- Synchronization: the rightsholder receives revenues for the right to use the composition in combination with visual images such as in films or television programs, television commercials and videogames as well as from other uses such as in toys or novelty items and merchandise; and
- Other: the rightsholder receives revenues for use in printed sheet music and other uses.

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

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

Acquisition of the Parlophone Label Group

On July 1, 2013, the Company completed the acquisition of Parlophone Label Group ("PLG") from Universal Music for £487 million, subject to a closing working capital adjustment, in an all-cash transaction (the "PLG Acquisition") pursuant to a Share Sale and Purchase Agreement (the "PLG Agreement"). The final working capital adjustment was received from Universal Music on November 21, 2014. The total working capital adjustment, including the previously disclosed preliminary adjustment of £13 million and the final adjustment, was £36 million, bringing the final purchase price, net of cash received of £31 million, to £492 million. See also "PLG Working Capital Adjustment" below. PLG included 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 was comprised of the historic Parlophone label and Chrysalis and Ensign labels in the U.K., 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 Minogue, M. Pokora, Magic System, Pablo Alborán, 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 PLG Acquisition. These businesses have been rebranded, respectively, as Warner Classics and Erato.

Recent Developments

Pandora

On April 17, 2014, we joined with UMG Recordings, Inc., Sony Music Entertainment, Capitol Records, LLC and ABKCO Music & Records, Inc. in a lawsuit brought against Pandora Media Inc. in the Supreme Court of the State of New York, alleging copyright infringement for Pandora's use of pre-1972 sound recordings. A settlement was reached on October 23, 2015 pursuant to which Pandora will pay the plaintiffs a total of $90 million and the plaintiffs dismissed their lawsuit with prejudice. Of the total $90 million, $60 million was paid upon settlement and the remaining amount will be paid in four equal installments of $7.5 million from January 1, 2016 through October 1, 2016. The settlement resolves all past claims as to Pandora's use of pre-1972 recordings owned or controlled by the plaintiffs and enables Pandora, without any additional payment, to reproduce, perform and broadcast such recordings in the United States through December 31, 2016. The allocation of the settlement proceeds among the plaintiffs has not yet been determined. We intend to share our allocation of the settlement proceeds with our artists on the same basis as statutory revenue from Pandora is shared, i.e., the artist share of our allocation will be paid to artists by SoundExchange. We will record the settlement in our financial statements once it is realized, which is expected to be at the time the allocation to the Company can be reasonably determined.

Sirius XM

On September 11, 2013, we joined with Capitol Records, LLC, Sony Music Entertainment, UMG Recordings, Inc. and ABKCO Music & Records, Inc. in a lawsuit brought in California Superior Court against Sirius XM Radio Inc., alleging copyright infringement for Sirius XM's use of pre-1972 sound recordings under California law. A nation-wide settlement was reached on June 17, 2015 pursuant to which Sirius XM paid the plaintiffs, in the aggregate, $210 million on July 29, 2015 and the plaintiffs dismissed their lawsuit with prejudice. The settlement resolves all past claims as to Sirius XM's use of pre-1972 recordings owned or controlled by the plaintiffs and enables Sirius XM, without any additional payment, to reproduce, perform and broadcast such recordings in the United States through December 31, 2017. As part of the settlement, Sirius XM has the right, to be exercised before December 31, 2017, to enter into a license with each plaintiff to reproduce, perform and broadcast its pre-1972 recordings from January 1, 2018 through December 31, 2022. The royalty rate for each such license will be determined by negotiation or, if the parties are unable to agree, binding arbitration on a willing buyer/willing seller standard. The allocation of the settlement proceeds among the plaintiffs has not yet been determined. We intend to share our allocation of the settlement proceeds with our artists on the same basis as statutory revenue from Sirius XM is shared, i.e., the artist share of our allocation will be paid to artists by SoundExchange. We will record the settlement in our financial statements once it is realized, which is expected to be at the time the allocation to the Company can be reasonably determined.

Factors Affecting Results of Operations and Financial Condition

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 Parlophone Label Group by Universal Music Group. Subsequent to the close of the PLG Acquisition, we also incurred other integration and other nonrecurring costs related to the PLG Acquisition. Total professional fees and integration costs amounted to approximately $5 million for the fiscal year ended September 30, 2015, $59 million for the fiscal year ended September 30, 2014 and $43 million for the fiscal year ended September 30, 2013, and were recorded in the consolidated statements of operation within general and administrative expense. All material integration costs have been incurred at the end of fiscal 2015.

Restructuring Costs and Expected Cost Savings and Other Synergies from the PLG Acquisition

In conjunction with the PLG Acquisition, we undertook a plan to achieve cost savings (the “Restructuring Plan”), primarily through headcount reductions and real estate consolidation. The Restructuring Plan was approved by our CEO. As of September 30, 2015, the Restructuring Plan was complete and resulted in approximately $74 million in restructuring costs, which were made up of employee-related costs of $67 million, real estate costs of $6 million and other costs of $1 million. Total restructuring costs of $2 million were incurred in the fiscal year ended September 30, 2015 with respect to these actions, which consisted of $2 million of real estate costs. Total restructuring costs of $50 million were incurred during the fiscal year ended September 30, 2014 with respect to these actions, which consisted of $45 million of employee-related costs, $4 million of real estate costs and $1 million of other costs. Total cash payments of $72 million to date have been made under the Restructuring Plan. Employee-related costs include all cash compensation and other employee benefits paid to terminated employees. Real estate costs include costs that will continue to be incurred without economic benefit to us, such as, among others, 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 wire a new facility.

The $74 million in restructuring costs do not include other integration and other nonrecurring costs related to the PLG Acquisition noted above, which do not qualify as restructuring costs. These actions were completed and resulted in cost savings and other synergies of approximately $70 million.

PLG Working Capital Adjustment

We recorded the final working capital adjustment of $38 million (£23 million) related to our PLG Acquisition in the fiscal year ended September 30, 2014. We also released various asset and liability balances as they are settled as a result of the final completion statement. This represents the finalization of the purchase price for PLG and resulted in a charge of $4 million recorded to the income statement as the measurement period for this acquisition has closed. We have accrued for the impact in our results for the year ended September 30, 2014 as it represents the culmination of our previously estimated adjusted purchase price for PLG as described in Note 4. The cash payment of this final amount was paid during the first quarter of fiscal 2015.

Severance Charges

We recorded severance charges unrelated to the PLG Acquisition of $6 million, $7 million, and $11 million for the fiscal years ended September 30, 2015, 2014 and 2013, respectively. These charges resulted from actions taken to further align our cost structure with industry trends and other cost-containment initiatives.

2014 Debt Refinancing

On April 9, 2014, the Company completed a refinancing of its $765 million of 11.5% Senior Notes due 2018 (the "2014 Refinancing"). In connection with the 2014 Refinancing, the Company issued $275 million in aggregate principal amount of its 5.625% Senior Secured Notes due 2022 and $660 million in aggregate principal amount of its 6.750% Senior Notes due 2022 and repaid $765 million of 11.50% Senior Notes due 2018.

See "Financial Condition and Liquidity" for more information.

Acquisition of Gold Typhoon

On July 22, 2014, we acquired the music catalog and current roster of recording artists of Gold Typhoon Group, one of the most successful independent music companies operating in the Greater China Region. The Gold Typhoon catalog is one of the largest and most acclaimed collections of local pop and rock music from China, Hong Kong and Taiwan, including many influential and popular releases from the early 1990s until the present day.

Other Business Models to Drive Incremental Revenue

Artist Services and Expanded-Rights Deals

As another means to offset declines in physical revenues and download revenues in Recorded Music, for many years we have signed recording artists to expanded-rights deals. Under our expanded-rights deals, we participate in the recording artist’s revenue streams, other than from recorded music sales, such as touring, merchandising and sponsorships. Artist services and expanded-rights Recorded Music revenue, which includes revenue from expanded-rights deals as well as revenue from our artist services business, represented approximately 10% of our total revenue during fiscal year ended September 30, 2015. Artist services and expanded-rights revenue will fluctuate from period to period depending upon touring schedules, among other things. Margins for the various artist services and expanded-rights revenue streams can vary significantly. The overall impact on margins will, therefore, depend on the composition of the various revenue streams in any particular period. For instance, participation in revenue from touring under our expanded-rights deals typically flows straight through to operating income with little associated cost. Revenue from some of our artist services businesses such as our management business and revenue from participation in touring and sponsorships under our expanded-rights deals are all high margin, while merchandising revenue under our expanded-rights deals and revenue from some of our artist services businesses such as our concert promotion businesses tend to be lower margin than our traditional revenue streams in Recorded Music.

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 equal to approximately $9 million based on a formula contained in the agreement and reimburse Access for certain expenses incurred performing services under the agreement. The annual fee is payable quarterly. The Company and Holdings agreed to indemnify Access and certain of its affiliates against all liabilities arising out of performance of the Management Agreement.

Such costs incurred by the Company were approximately $9 million, $8 million and $19 million for the fiscal years ended September 30, 2015, 2014 and 2013, respectively, which includes the annual fee, but excludes $2 million of expenses reimbursed related to certain consultants with full time roles at the Company for each of the fiscal years ended September 30, 2015, 2014 and 2013. For the fiscal year ended September 30, 2013, we also incurred an $11 million transaction fee related to the PLG Acquisition. Such amounts have been included as a component of selling, general and administrative expense in the accompanying statement of operations.

RESULTS OF OPERATIONS

Fiscal Year Ended September 30, 2015 Compared with Fiscal Year Ended September 30, 2014 and Fiscal Year Ended September 30, 2013

Consolidated Results

Revenues

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

	For the Fiscal Year Ended						
	September 30,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	$ Change	% Change	$ Change	% Change
Revenue by Type							
Physical	$767	$822	$900	$(55)	-7%	$(78)	-9%
Digital	1,145	1,103	997	42	4%	106	11%
Total Physical and Digital	1,912	1,925	1,897	(13)	-1%	28	2%
Artist services and expanded-rights	301	332	270	(31)	-9%	62	23%
Licensing	288	269	222	19	7%	47	21%
Total Recorded Music	2,501	2,526	2,389	(25)	-1%	137	6%
Performance	184	206	197	(22)	-11%	9	5%
Mechanical	86	101	113	(15)	-15%	(12)	-11%
Synchronization	103	102	98	1	1%	4	4%
Digital	99	97	83	2	2%	14	17%
Other	10	11	12	(1)	-9%	(1)	-8%
Total Music Publishing	482	517	503	(35)	-7%	14	3%
Intersegment eliminations	(17)	(16)	(21)	(1)	6%	5	-24%
Total Revenue	$2,966	$3,027	$2,871	$(61)	-2%	$156	5%
Revenue by Geographical Location							
U.S. Recorded Music	$980	$948	$973	$32	3%	$(25)	-3%
U.S. Music Publishing	191	193	188	(2)	-1%	5	3%
Total U.S.	1,171	1,141	1,161	30	3%	(20)	-2%
International Recorded Music	1,521	1,578	1,416	(57)	-4%	162	11%
International Music Publishing	291	324	315	(33)	-10%	9	3%
Total International	1,812	1,902	1,731	(90)	-5%	171	10%
Intersegment eliminations	(17)	(16)	(21)	(1)	6%	5	-24%
Total Revenue	$2,966	$3,027	$2,871	$(61)	-2%	$156	5%

Total Revenue

2015 vs. 2014

Total revenue decreased by $61 million, or 2%, to $2.966 billion for the fiscal year ended September 30, 2015 from $3.027 billion for the fiscal year ended September 30, 2014. Excluding the unfavorable impact of foreign currency exchange rates, total revenue increased by $173 million, or 6%. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 84% and 16% of revenues for the fiscal year ended September 30, 2015 and 83% and 17% of revenues for the fiscal year ended September 30, 2014. Prior to intersegment eliminations, U.S. and international revenues represented 39% and 61% of total revenues for the fiscal year ended September 30, 2015 and 37% and 63% of total revenues for the fiscal year ended September 30, 2014.

Total digital revenues after intersegment eliminations increased by $43 million, or 4%, to $1.239 billion for the fiscal year ended September 30, 2015 from $1.196 billion for the fiscal year ended September 30, 2014. Excluding the unfavorable impact of foreign currency exchange rates, total digital revenue after intersegment eliminations increased by $113 million, or 10%. Total digital revenues represented 42% and 40% of consolidated revenues for the fiscal year ended September 30, 2015 and September 30, 2014, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2015 were comprised of U.S. revenues of $629 million and international revenues of $615 million, or 51% and 49% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2014 were comprised of U.S. revenues of $594 million and international revenues of $606 million, or each 50% of total digital revenues.

Recorded Music revenues decreased by $25 million, or 1%, to $2.501 billion for the fiscal year ended September 30, 2015 from $2.526 billion for the fiscal year ended September 30, 2014. Excluding the unfavorable impact of foreign currency exchange rates, Recorded Music revenue increased by $168 million, or 7%. U.S. Recorded Music revenues were $980 million and $948 million, or 39% and 38% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2015 and September 30, 2014, respectively. International Recorded Music revenues were $1.521 billion and $1.578 billion, or 61% and 62% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2015 and September 30, 2014, respectively.

The overall decrease in Recorded Music revenue was driven by the unfavorable impact of foreign currency exchange rates. Excluding the unfavorable impact of foreign currency exchange rates, Recorded Music revenue increased due to increases in physical revenue of $15 million, digital revenue of $107 million, licensing revenue of $40 million and artist services and expanded-rights revenue of $6 million. Physical revenue decreased by $55 million, or increased by $15 million excluding the unfavorable impact of foreign currency exchange rates, as a result of physically-centric releases from key artists such as Josh Groban, Pink Floyd and Led Zeppelin, as well as local releases in physically-centric territories such as France. The impact of these releases partially offset the continued shift from physical to digital sales in the recorded music industry. Digital revenue increased by $42 million, or $107 million excluding the unfavorable impact of foreign currency exchange rates, as a result of strong releases from David Guetta and Wiz Khalifa, as well as the carryover success of Ed Sheeran’s album “x”, Michael Bublé’s album “Christmas” and Coldplay’s album “Ghost Stories”, and the continued growth in streaming. Revenue from streaming services grew by $121 million and was partially offset by digital download declines of $64 million. Licensing revenue increased by $19 million, or $40 million excluding the unfavorable impact of foreign currency exchange rates, as a result of increased synchronization activity in the year as well as the inclusion of PLG repertoire in broadcast fee income for the first time since the completion of the PLG Acquisition in certain territories. Artist services and expanded-rights revenue decreased by $31 million, or increased by $6 million excluding the unfavorable impact of foreign currency exchange rates, due to the timing of tours from artists such as Ed Sheeran, Bruno Mars and Skrillex.

Music Publishing revenues decreased by $35 million, or 7%, to $482 million for the fiscal year ended September 30, 2015 from $517 million for the fiscal year ended September 30, 2014. Excluding the unfavorable impact of foreign currency exchange rates, Music Publishing revenue increased by $6 million, or 1%. U.S. Music Publishing revenues were $191 million and $193 million, or 40% and 37%, of consolidated Music Publishing revenues for the fiscal year ended September 30, 2015 and September 30, 2014, respectively. International Music Publishing revenues were $291 million and $324 million, or 60% and 63%, of consolidated Music Publishing revenues for the fiscal year ended September 30, 2015 and September 30, 2014, respectively.

The decrease in Music Publishing revenue was due to the unfavorable impact of foreign currency exchange rates. Excluding the unfavorable impact of foreign currency exchange rates, Music Publishing revenue increased due to increases in digital revenue of $7 million and synchronization revenue of $6 million, partially offset by decreases in performance revenue of $1 million and mechanical revenue of $6 million. The increase in digital revenue was primarily due to an increase in streaming services revenue of $12 million partially offset by a decrease in download revenue of $3 million, excluding the unfavorable impact of foreign currency exchange rates. Synchronization revenue increased primarily due to increased activity and timing of society distributions. The offsetting decrease in performance revenue and mechanical revenue is attributable to an ongoing shift towards digital products in the industry.

2014 vs. 2013

Total revenue increased by $156 million, or 5%, to $3.027 billion for the fiscal year ended September 30, 2014 from $2.871 billion for the fiscal year ended September 30, 2013. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 83% and 17% of revenues for both the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2013. Prior to intersegment eliminations, U.S. and international revenues represented 37% and 63% of total revenues for the fiscal year ended September 30, 2014 and 40% and 60% of total revenues for the fiscal year ended September 30, 2013. Excluding the favorable impact of foreign currency exchange rates, total revenues increased by $149 million, or 5%.

Our overall results included the impact of PLG revenue of $322 million for the fiscal year ended September 30, 2014 and $59 million for the fiscal year ended September 30, 2013. Excluding the impact of PLG, total revenue decreased by $107 million, or 4%. The total revenue decline, excluding PLG, was primarily due to an overall light release schedule for recorded music in the current year, partially offset by Music Publishing strength in performance, synchronization and digital revenue. Results for the fiscal year ended September 30, 2013 only include PLG revenues from July 1, 2013 through September 30, 2013, which represented carryover from prior-period releases, as there were no new releases for PLG during the quarter ended September 30, 2013.

Total digital revenues after intersegment eliminations increased by $120 million, or 11%, to $1.196 billion for the fiscal year ended September 30, 2014 from $1.076 billion for the fiscal year ended September 30, 2013. Total digital revenues represented 40% and 38% of consolidated revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2014 were comprised of U.S. revenues of $594 million and international revenues of $606 million, or each 50% of total digital revenues. 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.

Recorded Music revenues increased by $137 million, or 6%, to $2.526 billion for the fiscal year ended September 30, 2014 from $2.389 billion for the fiscal year ended September 30, 2013. U.S. Recorded Music revenues were $948 million and $973 million, or 38% and 41% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively. International Recorded Music revenues were $1.578 billion and $1.416 billion, or 62% and 59% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively.

The overall Recorded Music results include $322 million in revenue from PLG. Excluding PLG, Recorded Music revenue declined $107 million due to the overall lighter release schedule as compared to the prior year. The current year included a successful second half with the release of Coldplay's "Ghost Stories" and Ed Sheeran's "x". Excluding the impact of PLG revenue, physical revenue declined $206 million. The decline was driven by the ongoing shift in demand towards digital product, and was further compounded by the comparatively light release schedule for recorded music. We continued to see growth in streaming services revenue, which grew by $200 million in total, and $150 million excluding the impact of PLG revenue, reflecting the increased consumer demand for streaming services. Offsetting this growth was a $91 million decline in digital download revenue, or a $133 million decline excluding the impact of PLG revenue. Artist services and expanded-rights revenue increased $62 million as a result of strong concert promotion revenue in Europe due to the timing of tours. Licensing revenue increased $47 million primarily due to licensing revenue from PLG. Excluding the favorable impact of foreign currency exchange rates, total Recorded Music revenue increased by $133 million, or 6%.

Music Publishing revenues increased by $14 million, or 3%, to $517 million for the fiscal year ended September 30, 2014 from $503 million for the fiscal year ended September 30, 2013. U.S. Music Publishing revenues were $193 million and $188 million, both 37%, of Music Publishing revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively. International Music Publishing revenues were $324 million and $315 million, both 63%, of Music Publishing revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively.

The increase in Music Publishing revenue was due to increases in performance revenue, synchronization revenue and digital revenue partially offset by a decrease in mechanical revenue. The increase in performance revenue was driven by the timing of a collection society distribution of $9 million related to prior periods. The increase in synchronization revenue was driven by a $3 million increase in commercial income, a $3 million increase in motion picture income, partially offset by a $2 million decrease in television program income. In addition, digital revenue continued to grow primarily due to a $15 million increase in streaming services revenue. The decrease in mechanical revenue was driven by the ongoing transition towards digital product in the music industry. Excluding the favorable impact of foreign currency exchange rates, total Music Publishing revenue increased by $11 million, or 2%.

Revenue by Geographical Location

2015 vs. 2014

U.S. revenues increased by $30 million, or 3%, to $1.171 billion for the fiscal year ended September 30, 2015 from $1.141 billion for the fiscal year ended September 30, 2014. U.S. Recorded Music revenue increased by $32 million or 3%. The primary factor was the increase in U.S. Recorded Music digital revenue, which increased by $36 million due to strong releases and the continued growth in streaming services. U.S Licensing revenue increased by $7 million due to an increase in synchronization activity and U.S. artist services and expanded-rights revenue increased by $6 million due to the timing of tours. U.S. Recorded Music physical revenue declined $17 million due to stronger physically-centric releases in the prior year and the continued shift from physical to digital sales in the recorded music industry. U.S. Music Publishing revenues declined $2 million primarily due to a $1 million decline in U.S. Music Publishing digital revenue and a $1 million decrease in U.S. Music Publishing other revenue. U.S. Music Publishing performance, mechanical, and synchronization revenue remained flat year over year.

International revenues decreased by $90 million, or 5%, to $1.812 billion for the fiscal year ended September 30, 2015 from $1.902 billion for the fiscal year ended September 30, 2014. Excluding the unfavorable impact of foreign currency exchange rates, International revenue increased by $144 million or 9%. International Recorded Music revenue decreased $57 million primarily due to decreases in physical revenue of $38 million and artist services and expanded-rights revenue of $37 million, partially offset by increases in digital revenue of $6 million and licensing revenue of $12 million. International Recorded Music physical revenue decreased due to the unfavorable impact of foreign currency exchange rates of $70 million, partially offset by the success of key physically-centric international artists such as Pink Floyd and Led Zeppelin as well as local release success in local territories outside of the U.S. and U.K., including France. International Recorded Music artist services and expanded-rights revenue decreased by $37 million due to the unfavorable impact of foreign currency exchange rates. The main driver of the increase in International Recorded

Music digital revenue was a $63 million increase in streaming services revenue due to the increasing availability of streaming access models internationally and strong releases from Ed Sheeran, David Guetta, and Wiz Khalifa. This growth in streaming was partially offset by a $44 million decline in digital download revenue. The main driver of the increase in International Recorded Music licensing revenue was the inclusion of PLG repertoire in broadcast fee income and the timing of collection society distributions. The decrease in International Music Publishing revenue of $33 million was due to the unfavorable impact of foreign currency exchange rates. Excluding the unfavorable impact of foreign currency exchange rates, International Music Publishing Revenue increased by $8 million or 3%.

2014 vs. 2013

U.S. revenues decreased by $20 million, or 2%, to $1.141 billion for the fiscal year ended September 30, 2014 from $1.161 billion for the fiscal year ended September 30, 2013. U.S. Recorded Music revenue decreased $25 million, or $80 million excluding the impact of PLG revenue. The primary driver was the decrease in U.S. Recorded Music physical revenue which declined $49 million, or $66 million excluding the impact of PLG revenue. The physical decline was due to the ongoing shift in demand towards digital product and as well as the timing of the release schedule. U.S. Recorded Music digital revenue increased $11 million, but decreased $24 million excluding the impact of PLG revenue. This decline reflected a comparatively light release schedule for recorded music in the current year. U.S. Recorded Music artist services and expanded-rights revenue increased $7 million due to higher merchandise sales and managed tour income. U.S. Music Publishing revenues increased $5 million primarily due to a $9 million increase in U.S. Music Publishing digital revenue as a result of the continued growth in streaming service revenue and a $4 million increase in synchronization revenue resulting from an increase in commercial income. Overall demand in the commercial market was lower in the comparative year. Partially offsetting these increases was a decline in mechanical revenue of $7 million as a result of the ongoing impact of the transition from physical to digital product in the music industry.

International revenues increased by $171 million, or 10%, to $1.902 billion for the fiscal year ended September 30, 2014 from $1.731 billion for the fiscal year ended September 30, 2013. International Recorded Music revenue increased $162 million, but decreased $46 million excluding the impact of PLG revenue. International Recorded Music physical revenue decreased $29 million, or $140 million excluding the impact of PLG revenue. The physical decline was due to the ongoing shift in demand towards digital product and a comparatively light release schedule for recorded music in the current year. Offsetting this decrease was an increase in digital revenue of $95 million, or $37 million excluding the impact of PLG revenue. The main driver of the $37 million increase was a $94 million increase in streaming services revenue, reflecting the increased consumer demand and increasing availability of streaming models internationally, offset by a $55 million decline in digital download revenue and a $2 million decline in mobile revenue. International Recorded Music artist services and expanded-rights revenue increased $55 million due to a $39 million increase in Italy for tours from artists including Ligabue, a $20 million increase in France for tours from artists including Christophe Maé, partially offset by a $13 million decrease in Japan, resulting from the Superfly tour in the prior year. International Recorded Music Licensing revenue increased $41 million primarily due to PLG. International Music Publishing revenue increased $9 million primarily due to a $9 million increase in performance revenue due to the timing of a collection society distribution and a $5 million increase in digital revenue due to an increase in streaming services revenue, partially offset by a $5 million decline in mechanical revenue driven by the ongoing transition towards digital product in the music industry. Excluding the favorable impact of foreign currency exchange rates, total international revenue increased $164 million, or 9%.

Cost of revenues

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

	For the Fiscal Year Ended September 30,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	$ Change	% Change	$ Change	% Change
Artist and repertoire costs	$980	$998	$949	$(18)	-2 %	$49	5 %
Product costs	531	572	543	(41)	-7 %	29	5 %
Total cost of revenues	$1,511	$1,570	$1,492	$(59)	-4 %	$78	5 %

2015 vs. 2014

Our cost of revenues decreased by $59 million, or 4%, to $1.511 billion for the fiscal year ended September 30, 2015 from $1.570 billion for the fiscal year ended September 30, 2014. Expressed as a percentage of revenues, cost of revenues decreased to 51% for the fiscal year ended September 30, 2015 from 52% for the fiscal year ended September 30, 2014.

Artist and repertoire costs decreased by $18 million, or 2%, to $980 million for the fiscal year ended September 30, 2015 from $998 million for the fiscal year ended September 30, 2014. Artist and repertoire costs as a percentage of revenues remained flat at 33% for both the fiscal year ended September 30, 2015 and the fiscal year ended September 30, 2014.

Product costs decreased by $41 million, or 7%, to $531 million for the fiscal year ended September 30, 2015 from $572 million for the fiscal year ended September 30, 2014. Product costs as a percentage of revenue decreased to 18% for the fiscal year ended September 30, 2015 from 19% for the fiscal year ended September 30, 2014. The decrease was primarily driven by lower costs associated with the decline in artist services and expanded-rights revenue, which tends to have higher costs and yield lower margins than our traditional revenue streams.

2014 vs. 2013

Our cost of revenues increased by $78 million, or 5%, to $1.570 billion for the fiscal year ended September 30, 2014 from $1.492 billion for the fiscal year ended September 30, 2013. Expressed as a percentage of revenues, cost of revenues remained flat at 52% for both the fiscal year ended September 30, 2014 and September 30, 2013.

Artist and repertoire costs increased by $49 million, or 5%, to $998 million for the fiscal year ended September 30, 2014 from $949 million for the fiscal year ended September 30, 2013 due to higher royalty expense associated with higher revenues. Artist and repertoire costs as a percentage of revenues remained flat at 33% for both the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2013.

Product costs increased by $29 million, or 5%, to $572 million for the fiscal year ended September 30, 2014 from $543 million for the fiscal year ended September 30, 2013. The increase was primarily driven by an increase in artist services and expanded-rights revenue. Product costs also includes $6 million of other integration costs associated with the PLG Acquisition, primarily related to supply chain integration. Product costs as a percentage of revenues remained flat at 19% for both the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2013.

Selling, general and administrative expenses

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

	For the Fiscal Year Ended September 30,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	$ Change	% Change	$ Change	% Change
General and administrative expense (1)	$586	$659	$616	$(73)	-11 %	$43	7 %
Selling and marketing expense	428	451	422	(23)	-5 %	29	7 %
Distribution expense	59	62	59	(3)	-5 %	3	5 %
Total selling, general and administrative expense	$1,073	$1,172	$1,097	$(99)	-8 %	$75	7 %

(1) Includes depreciation expense of $54 million, $55 million and $51 million for the fiscal year ended September 30, 2015, 2014 and 2013, respectively.

2015 vs. 2014

Total selling, general and administrative expense decreased by $99 million, or 8%, to $1.073 billion for the fiscal year ended September 30, 2015 from $1.172 billion for the fiscal year ended September 30, 2014. Expressed as a percentage of revenues, selling, general and administrative expenses decreased to 36% for the fiscal year ended September 30, 2015 from 39% for the fiscal year ended September 30, 2014.

General and administrative expenses decreased by $73 million, or 11%, to $586 million for the fiscal year ended September 30, 2015 from $659 million for the fiscal year ended September 30, 2014. The decline in general and administrative expense was primarily due to a decline in restructuring costs of $38 million, decreased professional fees and other integration costs primarily associated with the PLG Acquisition of $54 million, decline in facilities cost of $10 million related to the move to our new corporate headquarters and savings resulting from cost-containment initiatives. These decreases were partially offset by increased variable compensation expense of $30 million, primarily due to non-recurring performance driven reductions in bonus expense in the prior year. Expressed as a percentage of revenue, general and administrative expense decreased to 20% for the fiscal year ended September 30, 2015 from 22% for the fiscal year ended September 30, 2014.

Selling and marketing expense decreased by $23 million, or 5%, to $428 million for the fiscal year ended September 30, 2015 from $451 million for the fiscal year ended September 30, 2014. Selling and marketing expense decreased in line with the decrease in revenue. Expressed as a percentage of revenues, selling and marketing expense decreased to 14% for the fiscal year ended September 30, 2015 from 15% for the fiscal year ended September 30, 2014.

Distribution expense decreased by $3 million, or 5%, to $59 million for the fiscal year ended September 30, 2015 from $62 million for the fiscal year ended September 30, 2014. Expressed as a percentage of revenues, distribution expense remained flat at 2% for both the fiscal year ended September 30, 2015 and September 30, 2014.

2014 vs. 2013

Total selling, general and administrative expense increased by $75 million, or 7%, to $1.172 billion for the fiscal year ended September 30, 2014 from $1.097 billion for the fiscal year ended September 30, 2013. Expressed as a percentage of revenues, selling, general and administrative expenses increased to 39% for the fiscal year ended September 30, 2014 from 38% for the fiscal year ended September 30, 2013.

General and administrative expenses increased by $43 million, or 7%, to $659 million for the fiscal year ended September 30, 2014 from $616 million for the fiscal year ended September 30, 2013. The increase in general and administrative expense was primarily due to a $28 million increase in PLG restructuring costs, a $5 million increase in PLG Acquisition-related professional fees from our participation in the sales process and other integration costs, including transitional employees, PLG overhead costs, and a $20 million increase in facilities cost due to the overlap in terms on the lease of our new corporate headquarters with our existing headquarters lease and non-cash costs associated with terminating one of our New York office leases. These increases were partially offset by a $14 million decrease in variable compensation, an $11 million decrease in share-based compensation expense and a $4 million decrease in severance charges unrelated to the PLG Acquisition. Expressed as a percentage of revenue, general and administrative expense remained flat at 22% for both the fiscal year ended September 30, 2014 and September 30, 2013.

Selling and marketing expense increased by $29 million, or 7%, to $451 million for the fiscal year ended September 30, 2014 from $422 million for the fiscal year ended September 30, 2013. Selling and marketing expense increased in line with the increase in revenue and was largely the result of higher variable marketing spending. Expressed as a percentage of revenues, selling and marketing expense remained flat at 15% for both the fiscal year ended September 30, 2014 and September 30, 2013.

Distribution expense increased by $3 million, or 5%, to $62 million for the fiscal year ended September 30, 2014 from $59 million for the fiscal year ended September 30, 2013 due to increased revenue. Expressed as a percentage of revenues, distribution expense remained flat at 2% for both the fiscal year ended September 30, 2014 and September 30, 2013.

Reconciliation of Consolidated 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):

	2015 vs. 2014	2014 vs. 2013

	For the Fiscal Year Ended September 30,						
	2015	2014	2013	$ Change	% Change	$ Change	% Change
OIBDA	$436	$340	$333	$96	28 %	$7	2 %
Depreciation expense	(54)	(55)	(51)	1	-2 %	(4)	8 %
Amortization expense	(255)	(266)	(207)	11	-4 %	(59)	29 %
Operating income	127	19	75	108	— %	(56)	-75 %
Loss on extinguishment of debt	—	(141)	(85)	141	-100 %	(56)	66 %
Interest expense, net	(181)	(203)	(203)	22	-11 %	—	— %
Other expense, net	(21)	(4)	(12)	(17)	—%	8	-67 %
Loss before income taxes	(75)	(329)	(225)	254	-77 %	(104)	46 %
Income tax (expense) benefit	(13)	26	31	(39)	-150 %	(5)	-16 %
Net loss	(88)	(303)	(194)	215	-71 %	(109)	56 %
Less: Income attributable to noncontrolling interest	(3)	(5)	(4)	2	-40 %	(1)	25 %
Net loss attributable to Warner Music Group Corp.	$(91)	$(308)	$(198)	$217	-71 %	$(110)	56 %

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OIBDA

2015 vs. 2014

Our OIBDA increased by $96 million, or 28%, to $436 million for the fiscal year ended September 30, 2015 as compared to $340 million for the fiscal year ended September 30, 2014 primarily as a result of continued cost-containment initiatives and lower restructuring and integration costs related to the PLG Acquisition. Expressed as a percentage of total revenue, OIBDA increased to 15% for the fiscal year ended September 30, 2015 from 11% for the fiscal year ended September 30, 2014 mainly due to the decrease in PLG restructuring and integration costs, as noted above.

2014 vs. 2013

Our OIBDA increased by $7 million, or 2%, to $340 million for the fiscal year ended September 30, 2014 as compared to $333 million for the fiscal year ended September 30, 2013 primarily as a result of the flow through of higher revenues, offset by higher cost of revenues, and higher selling, general and administrative expense. As a percentage of revenues, total OIBDA decreased slightly to 11% for the fiscal year ended September 30, 2014 from 12% for the fiscal year ended September 30, 2013 mainly due to non-recurring charges related to PLG restructuring and integration costs in both years, as noted above.

Depreciation expense

2015 vs. 2014

Our depreciation expense decreased by $1 million, or 2%, to $54 million for the fiscal year ended September 30, 2015 from $55 million for the fiscal year ended September 30, 2014 due to the impact of foreign currency exchange rates.

2014 vs. 2013

Our depreciation expense increased by $4 million, or 8%, to $55 million for the fiscal year ended September 30, 2014 from $51 million for the fiscal year ended September 30, 2013 primarily as a result of the increased capital expenditures related to IT projects, as well as consolidating our New York office space into our new headquarters and $2 million of accelerated depreciation associated with the move.

Amortization expense

2015 vs. 2014

Amortization expense decreased by $11 million, or 4%, to $255 million for the fiscal year ended September 30, 2015 from $266 million for the fiscal year ended September 30, 2014 due to the impact of foreign currency exchange rates.

2014 vs. 2013

Amortization expense increased by $59 million, or 29%, to $266 million for the fiscal year ended September 30, 2014 from $207 million for the fiscal year ended September 30, 2013 due to the PLG Acquisition and the resulting increase in amortizable intangible assets. The fiscal year ended September 30, 2014 included a full year of amortization for the intangibles related to the PLG Acquisition, whereas the fiscal year ended September 30, 2013 only included 3 months of amortization.

Operating income

2015 vs. 2014

Our operating income increased $108 million to $127 million for the fiscal year ended September 30, 2015 from $19 million for the fiscal year ended September 30, 2014. The increase in operating income was due to the factors that led to the increase in OIBDA and lower depreciation and amortization expense as noted above.

2014 vs. 2013

Our operating income decreased $56 million, or 75%, to $19 million for the fiscal year ended September 30, 2014 from $75 million for the fiscal year ended September 30, 2013. The decrease in operating income was due to the factors that led to the increase in OIBDA noted above which was more than offset by the increase in depreciation and amortization expense, as noted above.

Loss on extinguishment of debt

2015 vs. 2014

We recorded a loss on extinguishment of debt in the amount of $141 million for the fiscal year ended September 30, 2014, as noted below. There was no such activity or comparable charges in the fiscal year ended September 30, 2015.

2014 vs. 2013

We recorded a loss on extinguishment of debt in the amount of $141 million for the fiscal year ended September 30, 2014 as compared to a loss on extinguishment of debt in the amount of $85 million for the fiscal year ended September 30, 2013. On April 9, 2014, we completed the 2014 Refinancing. We made a redemption payment of $869 million, which included the repayment of our previously outstanding $765 million 11.5% Senior Notes due 2018, tender/call premiums of $85 million and consent fees of approximately $19 million. As a result, we recorded a $141 million loss on the extinguishment of debt for the fiscal year ended September 30, 2014, which represents the difference between the redemption payment and the carrying value of the debt, including unamortized discounts of $13 million and unamortized debt and issuance costs of $24 million as of the refinancing date.

On November 1, 2012, we completed a refinancing of our then outstanding Senior Secured Notes due 2016. We made a redemption payment of $1.377 billion, which included the repayment of our previously outstanding $1.250 billion Old Secured Notes, tender/call premiums of $93 million and consent fees of approximately $34 million. As a result, we recorded an $83 million loss on the extinguishment of debt for the fiscal year ended September 30, 2013, which represents the difference between the redemption payment and the carrying value of the debt as of the refinancing date. Additionally, on June 21, 2013, we redeemed 10% of our then outstanding Senior Secured Notes due 2021. As a result, we recorded an additional loss on the extinguishment of debt of $2 million for the nine months ended June 30, 2013, which represents the premium paid on early redemption.

Interest expense, net

2015 vs. 2014

Our interest expense, net, decreased by $22 million, or 11% to $181 million for the fiscal year ended September 30, 2015 from $203 million for the fiscal year ended September 30, 2014. This was primarily driven by lower interest rates as a result of our refinancing in fiscal 2014.

2014 vs. 2013

Our interest expense, net, remained flat at $203 million for both the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2013. This was driven by additional principal debt outstanding offset by lower interest rates as a result of the 2014 Refinancing of certain debt obligations.

Other expense

2015 vs. 2014

Other expense, net, increased by $17 million to $21 million for the fiscal year ended September 30, 2015 from $4 million for the fiscal year ended September 30, 2014. Other expense primarily consists of currency exchange movements associated with our Euro denominated debt and intercompany receivables and payables that are short term in nature. The current year expense is primarily due to currency exchange gains on our Euro denominated debt of $24 million, partially offset by losses on our intercompany loans of $50 million.

2014 vs. 2013

Other expense, net, decreased by $8 million, or 67%, to $4 million for the fiscal year ended September 30, 2014 from $12 million for the fiscal year ended September 30, 2013. 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.

Income tax (expense) benefit

2015 vs. 2014

We incurred income tax expense of $13 million for the fiscal year ended September 30, 2015 compared to an income tax benefit of $26 million for the fiscal year ended September 30, 2014. The increase of $39 million in income tax expense primarily relates to a lower pretax loss and the impact of the losses in certain jurisdictions for which no tax benefit could be recorded for the fiscal year ended September 30, 2015.

2014 vs. 2013

We incurred income tax benefit of $26 million for the fiscal year ended September 30, 2014 compared to $31 million for the fiscal year ended September 30, 2013, due to pre-tax losses in both periods.

Net loss

2015 vs. 2014

Our net loss decreased by $215 million, to $88 million for the fiscal year ended September 30, 2015 as compared to $303 million for the fiscal year ended September 30, 2014 as a result of the factors described above. The smaller loss was driven by the increase in operating income and the factors described above.

2014 vs. 2013

Our net loss increased by $109 million, to $303 million for the fiscal year ended September 30, 2014 as compared to $194 million for the fiscal year ended September 30, 2013. The increased loss was driven by the decrease in operating income and increase in the loss on extinguishment of debt, as noted above, partially offset by lower other expense.

Noncontrolling interest

2015 vs. 2014

Net income attributable to noncontrolling interests was $3 million for the fiscal year ended September 30, 2015 and $5 million for the fiscal year ended September 30, 2014.

2014 vs. 2013

Net income attributable to noncontrolling interests was $5 million for the fiscal year ended September 30, 2014 and $4 million for the fiscal year ended September 30, 2013.

Business Segment Results

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

	For the Fiscal Year Ended September 30,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	$ Change	% Change	$ Change	% Change
Recorded Music							
Revenue	$2,501	$2,526	$2,389	$(25)	-1%	$137	6%
OIBDA	379	267	270	112	42%	(3)	-1%
Operating income	151	31	92	120	—%	$(61)	-66%
Music Publishing							
Revenue	482	517	503	(35)	-7%	$14	3%
OIBDA	146	166	148	(20)	-12%	18	12%
Operating income	77	94	81	(17)	-18%	$13	16%
Corporate expenses and eliminations							
Revenue elimination	(17)	(16)	(21)	(1)	6%	$5	-24%
OIBDA	(89)	(93)	(85)	4	-4%	(8)	9%
Operating loss	(101)	(106)	(98)	5	-5%	$(8)	8%
Total							
Revenue	2,966	3,027	2,871	(61)	-2%	$156	5%
OIBDA	436	340	333	96	28%	7	2%
Operating income	127	19	75	108	—%	$(56)	-75%

Recorded Music

Revenues

2015 vs. 2014

Recorded Music revenues decreased by $25 million, or 1%, to $2.501 billion for the fiscal year ended September 30, 2015 from $2.526 billion for the fiscal year ended September 30, 2014. U.S. Recorded Music revenues were $980 million and $948 million, or 39% and 38% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2015 and September 30, 2014, respectively. International Recorded Music revenues were $1.521 billion and $1.578 billion, or 61% and 62% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2015 and September 30, 2014, respectively.

The overall decrease in Recorded Music revenue was mainly driven by the unfavorable impact of foreign currency exchange rates as described in the “Total Revenues” and “Revenue by Geographical Location” sections above.

2014 vs. 2013

Recorded Music revenues increased by $137 million, or 6%, to $2.526 billion for the fiscal year ended September 30, 2014 from $2.389 billion for the fiscal year ended September 30, 2013. U.S. Recorded Music revenues were $948 million and $973 million, or 38% and 41% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively. International Recorded Music revenues were $1.578 billion and $1.416 billion, or 62% and 59% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively.

The overall increase in Recorded Music revenue was mainly driven by the impact of the PLG Acquisition as described in the “Total Revenues” and “Revenue by Geographical Location” sections above.

Cost of revenues

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

	For the Fiscal Year Ended September 30,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	$ Change	% Change	$ Change	% Change
Artist and repertoire costs	$725	$725	$681	$—	— %	$44	7 %
Product costs	531	572	543	(41)	-7 %	29	5 %
Total cost of revenues	$1,256	$1,297	$1,224	$(41)	-3 %	$73	6 %

2015 vs. 2014

Recorded Music cost of revenues decreased by $41 million, or 3%, to $1.256 billion for the fiscal year ended September 30, 2015 from $1.297 billion for the fiscal year ended September 30, 2014. Artist and repertoire costs remained flat year over year. The decrease in Recorded Music product costs was primarily driven by lower costs associated with artist services and expanded-rights revenue, specifically the decline in concert promotion revenue, which tends to have higher costs and yield lower margins than our traditional revenue streams. Expressed as a percentage of Recorded Music revenues, cost of revenues decreased to 50% for the fiscal year ended September 30, 2015 from 51% for the fiscal year ended September 30, 2014.

2014 vs. 2013

Recorded Music cost of revenues increased by $73 million, or 6%, to $1.297 billion for the fiscal year ended September 30, 2014 from $1.224 billion for the fiscal year ended September 30, 2013. The increase in Recorded Music artist and repertoire costs was primarily due to higher royalty expense associated with higher revenues. The increase in Recorded Music product costs was primarily driven by an increase in artist services and expanded-rights revenue. Recorded Music product costs also includes $6 million of other integration costs associated with the PLG Acquisition, primarily related to supply chain integration. Expressed as a percentage of Recorded Music revenues, cost of revenues remained flat at 51% for both the fiscal year ended September 30, 2014 and September 30, 2013, primarily due to the revenue mix resulting from an increase in the artist services and expanded-rights product costs associated with higher concert promotion revenue, partially offset by lower product costs associated with lower third-party distribution revenue. Both concert promotion revenue and revenue associated with third-party distribution tend to yield lower margins than our traditional revenue streams.

Selling, general and administrative expense

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

For the Fiscal Year Ended September 30,			2015 vs. 2014		2014 vs. 2013	
2015	2014	2013	$ Change	% Change	$ Change	% Change

General and administrative expense (1)	$420	$489	$451	$(69)	-14 %	$ 38	8 %
Selling and marketing expense	423	446	417	(23)	-5 %	29	7 %
Distribution expense	59	62	59	(3)	-5 %	3	5 %
Total selling, general and administrative expense	$902	$997	$927	$(95)	-10 %	$ 70	8 %

(1) Includes depreciation expense of $36 million, $35 million, and $32 million for the fiscal year ended September 30, 2015, 2014 and 2013, respectively.

2015 vs. 2014

Recorded Music selling, general and administrative expense decreased by $95 million, or 10%, to $902 million for the fiscal year ended September 30, 2015 from $997 million for the fiscal year ended September 30, 2014. The decrease in Recorded Music general and administrative expense was primarily due to a decline in restructuring costs of $40 million, decreased professional fees and other integration costs primarily associated with the PLG Acquisition of $54 million and cost savings related to cost-containment initiatives, partially offset by increased variable compensation expense of $30 million, primarily due to non-recurring performance driven reductions in bonus expense in the prior year. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense decreased to 36% for the fiscal year ended September 30, 2015 from 40% for the fiscal year ended September 30, 2014.

2014 vs. 2013

Recorded Music selling, general and administrative expense increased by $70 million, or 8%, to $997 million for the fiscal year ended September 30, 2014 from $927 million for the fiscal year ended September 30, 2013. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense increased to 40% for the fiscal year ended September 30, 2014 from 39% for the fiscal year ended September 30, 2013. Recorded Music selling, general and administrative expense includes $54 million of PLG overhead costs for the fiscal year ended September 30, 2014 compared to $24 million for the fiscal year ended September 30, 2013.

Recorded Music general and administrative expense increased by $38 million, or 8%, to $489 million for the fiscal year ended September 30, 2014 from $451 million for the fiscal year ended September 30, 2013. The increase in Recorded Music general and administrative expense was primarily due to a $28 million increase in PLG restructuring costs, a $7 million increase in PLG Acquisition-related professional fees and other integration costs, including transitional employees and PLG overhead costs. These increases were partially offset by a $14 million decrease in variable compensation, a $6 million decrease in share-based compensation expense and a $5 million decrease in severance charges unrelated to the PLG Acquisition. Expressed as a percentage of Recorded Music revenue, Recorded Music general and administrative expense remained flat at 19% for both the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2013.

Recorded Music selling and marketing expense increased by $29 million, or 7%, to $446 million for the fiscal year ended September 30, 2014 from $417 million for the fiscal year ended September 30, 2013. Recorded Music selling and marketing expense increased in line with the increase in revenue and was largely the result of higher variable marketing spending. Expressed as a percentage of Recorded Music revenue, Recorded Music selling and marketing expense remained flat at 18% for both the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2013.

Recorded Music distribution expense increased by $3 million, or 5%, to $62 million for the fiscal year ended September 30, 2014 from $59 million for the fiscal year ended September 30, 2013. Expressed as a percentage of Recorded Music revenue, Recorded Music distribution expense remained flat at 3% for the both fiscal year ended September 30, 2014 and September 30, 2013.

OIBDA and Operating income

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

	For the Fiscal Year Ended September 30,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	$ Change	% Change	$ Change	% Change
OIBDA	$379	$267	$270	$112	42 %	$(3)	-1 %
Depreciation and amortization	(228)	(236)	(178)	8	-3 %	(58)	33 %
Operating income	$151	$31	$92	$120	— %	$(61)	-66 %

2015 vs. 2014

Recorded Music OIBDA increased by $112 million, or 42%, to $379 million for the fiscal year ended September 30, 2015 from $267 million for the fiscal year ended September 30, 2014 primarily as a result of decreased restructuring and other integration costs related to the PLG Acquisition. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA increased to 15% for the fiscal year ended September 30, 2015 from 11% for the fiscal year ended September 30, 2014 mainly due to the decreased costs related to PLG Acquisition as noted above.

Recorded Music operating income increased by $120 million to $151 million for the fiscal year ended September 30, 2015 from $31 million for the fiscal year ended September 30, 2014 mainly due to the factors that led to the increase in Recorded Music OIBDA noted above.

2014 vs. 2013

Recorded Music OIBDA decreased by $3 million, or 1%, to $267 million for the fiscal year ended September 30, 2014 from $270 million for the fiscal year ended September 30, 2013 primarily as a result of the flow through of higher Recorded Music revenues, higher Recorded Music cost of revenues, and higher Recorded Music selling, general and administrative expense. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA remained flat at 11% for the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2013 mainly due to non-recurring charges related to PLG restructuring and integration costs in both years, as noted above.

Recorded Music operating income decreased by $61 million, or 66%, due to the decrease in OIBDA noted above and the additional amortization expense, primarily relating to amortization of intangible assets acquired from PLG.

Music Publishing

Revenues

2015 vs. 2014

Music Publishing revenues decreased by $35 million, or 7%, to $482 million for the fiscal year ended September 30, 2015 from $517 million for the fiscal year ended September 30, 2014. U.S. Music Publishing revenues were $191 million and $193 million, or 40% and 37%, of Music Publishing revenues for the fiscal year ended September 30, 2015 and September 30, 2014, respectively. International Music Publishing revenues were $291 million and $324 million, or 60% and 63%, of Music Publishing revenues for the fiscal year ended September 30, 2015 and September 30, 2014, respectively.

The overall decrease in Music Publishing revenue was mainly driven by the unfavorable impact of foreign currency exchange rates, which resulted in decreases in performance revenue and mechanical revenue offset by increases in digital revenue and synchronization revenue as described in the "Total Revenues" and "Revenue by Geographical Location" sections above.

2014 vs. 2013

Music Publishing revenues increased by $14 million, or 3%, to $517 million for the fiscal year ended September 30, 2014 from $503 million for the fiscal year ended September 30, 2013. U.S. Music Publishing revenues were $193 million and $188 million, both 37%, of Music Publishing revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively. International Music Publishing revenues were $324 million and $315 million, both 63%, of Music Publishing revenues for the fiscal year ended September 30, 2014 and September 30, 2013, respectively.

The increase in Music Publishing revenue was due to increases in performance revenue, synchronization revenue and digital revenue partially offset by a decrease in mechanical revenue as described in the "Total Revenues" and "Revenue by Geographical Location" sections above.

Cost of revenues

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

	For the Fiscal Year Ended September 30,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	$ Change	% Change	$ Change	% Change
Artist and repertoire costs	$272	$289	$289	$(17)	-6%	$ —	—%
Total cost of revenues	$272	$289	$289	$(17)	-6%	$ —	—%

2015 vs. 2014

Music Publishing cost of revenues decreased by $17 million, or 6%, to $272 million for the fiscal year ended September 30, 2015 from $289 million for the fiscal year ended September 30, 2014, primarily driven by the decrease in revenue. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues remained flat at 56% for the fiscal year ended September 30, 2015 and September 30, 2014.

2014 vs. 2013

Music Publishing cost of revenues remained flat at $289 million for the fiscal year ended September 30, 2014 and the fiscal year ended September 30, 2013. Expressed as a percentage of Music Publishing revenues, Music Publishing cost of revenues decreased to 56% for the fiscal year ended September 30, 2014 from 58% for the fiscal year ended September 30, 2013 primarily due to the revenue mix.

Selling, general and administrative expense

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

	For the Fiscal Year Ended September 30,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	$ Change	% Change	$ Change	% Change
General and administrative expense (1)	$68	$ 67	$ 70	$ 1	2 %	$ (3)	-4 %
Selling and marketing expense	2	2	2	—	— %	—	— %
Total selling, general and administrative expense	$70	$ 69	$ 72	$ 1	1 %	$ (3)	-4 %

(1) Includes depreciation expense of $6 million, $7 million, and $6 million for the fiscal year ended September 30, 2015, 2014 and 2013, respectively.

2015 vs. 2014

Music Publishing selling, general and administrative expense increased by $1 million, or 1%, to $70 million for the fiscal year ended September 30, 2015 as compared to $69 million for the fiscal year ended September 30, 2014. The increase in general and administrative expense was due to increases in variable compensation expense and other non-recurring items offset by the $6 million reversal of a previously accrued earnout in the prior year. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense increased to 15% for the fiscal year ended September 30, 2014 from 13% for the fiscal year ended September 30, 2014.

2014 vs. 2013

Music Publishing selling, general and administrative expense decreased by $3 million, or 4%, to $69 million for the fiscal year ended September 30, 2014 as compared to $72 million for the fiscal year ended September 30, 2013, primarily due to a one-time benefit of $6 million related to the reversal of a previously accrued earnout partially offset by a $1 million increase in depreciation expense and a $1 million increase in professional fees. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense decreased to 13% for the fiscal year ended September 30, 2014 from 14% for the fiscal year ended September 30, 2013.

OIBDA and Operating income

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

	For the Fiscal Year Ended September 30,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	$ Change	% Change	$ Change	% Change
OIBDA	$146	$166	$148	$(20)	-12 %	$18	12 %

Depreciation and amortization	(69)	(72)	(67)	3	-4 %	(5)	8 %
Operating income	$77	$94	$81	$(17)	-18 %	$13	16 %

2015 vs. 2014

Music Publishing OIBDA decreased by $20 million, or 12%, to $146 million for the fiscal year ended September 30, 2015 from $166 million for the fiscal year ended September 30, 2014 as a result of lower Music Publishing revenue noted above and a one-time benefit of $6 million related to the reversal of a previously accrued earnout in 2014. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA margin decreased to 30% for the fiscal year ended September 30, 2015 from 32% for the fiscal year ended September 30, 2014.

Music Publishing operating income decreased by $17 million due to the decrease in OIBDA noted above partially offset by the $3 million decrease in Music Publishing depreciation and amortization expense due to the unfavorable impact of foreign currency exchange rates.

2014 vs. 2013

Music Publishing OIBDA increased by $18 million, or 12%, to $166 million for the fiscal year ended September 30, 2014 from $148 million for the fiscal year ended September 30, 2013 primarily as a result of the flow through of higher Music Publishing revenue and lower Music Publishing selling, general and administrative expense. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA margin increased to 32% for the fiscal year ended September 30, 2014 from 29% for the fiscal year ended September 30, 2013, reflecting the impact of the reversal of a previously accrued earnout.

Music Publishing operating income increased by $13 million due to the increase in OIBDA noted above offset by the $5 million increase in Music Publishing depreciation and amortization expense.

Corporate Expenses and Eliminations

2015 vs. 2014

Our OIBDA loss from corporate expenses and eliminations decreased by $4 million to $89 million for the fiscal year ended September 30, 2015 from $93 million for the fiscal year ended September 30, 2014. The decrease was primarily due to a decline in facilities cost associated with moving to our new headquarters and the current year benefit of ongoing cost-containment initiatives, partially offset by higher variable compensation in 2015 due to non-recurring performance driven reductions in bonus expense in the prior year.

Our operating loss from corporate expenses and eliminations decreased by $5 million to $101 million for the fiscal year ended September 30, 2015 from $106 million for the fiscal year ended September 30, 2014 due to the decrease in OIBDA loss noted above.

2014 vs. 2013

Our OIBDA loss from corporate expenses and eliminations increased by $8 million to $93 million for the fiscal year ended September 30, 2014 from $85 million for the fiscal year ended September 30, 2013. The increase was primarily due to a $12 million increase in facilities cost due to the costs associated with terminating one of our New York office leases and overlap in terms on the lease of our new corporate headquarters with our existing headquarters lease, partially offset by a $2 million decrease in professional fees related to our participation in the sales process and acquisition of PLG.

Our operating loss from corporate expenses and eliminations increased by $8 million to $106 million for the fiscal year ended September 30, 2014 from $98 million for the fiscal year ended September 30, 2013 due to the increase in OIBDA loss noted above.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition at September 30, 2015

At September 30, 2015, we had $2.994 billion of debt, $246 million of cash and equivalents (net debt of $2.748 billion, defined as total debt less cash and equivalents and short-term investments) and $221 million of Warner Music Group Corp. equity. This compares to $3.030 billion of debt, $157 million of cash and equivalents (net debt of $2.873 billion) and $371 million of Warner Music Group Corp. equity at September 30, 2014.

The $150 million decrease in Warner Music Group Corp.'s equity during the fiscal year ended September 30, 2015 was due to our $91 million net loss and foreign currency adjustments of $59 million.

Cash Flows

The following table summarizes our historical cash flows. The financial data for fiscal years ended September 30, 2015, 2014 and 2013 have been derived from our audited financial statements included elsewhere herein.

	For the Fiscal Year Ended September 30,		
	2015	2014	2013
Cash provided by (used in):			
Operating Activities	$222	$130	$159
Investing Activities	(95)	(155)	(808)
Financing Activities	(19)	37	511

Operating Activities

Cash provided by operating activities was $222 million for the fiscal year ended September 30, 2015 compared to $130 million for the fiscal year ended September 30, 2014 and $159 million for the fiscal year ended September 30, 2013. The primary drivers of the $92 million increase in cash provided by operating activities were an increase in comparative OIBDA of $96 million and lower comparative cash interest payments of $33 million due to our lower cost of debt. Offsetting this was the final PLG Acquisition cash payment of $38 million related to the final working capital adjustment, a decline in deferred revenue as a source of cash due to the timing of contractual advances on large digital service deals, and a decline in accounts receivable as a source of cash due to timing of sales.

The decrease in results from operating activities in fiscal 2014 compared to fiscal 2013 reflected the increase in OIBDA of $7 million, offset by changes in working capital associated with the operations of the business. Accounts payable was a large driver of the decline in operating cash due to payout of back-ended prior-year expenses, and the decline in operating cash was partially offset by deferred revenue which was a source of operating cash due to timing of contractual advances on large digital service deals.

Investing Activities

Cash used in investing activities was $95 million for the fiscal year ended September 30, 2015, compared to $155 million for the fiscal year ended September 30, 2014 and $808 million for the fiscal year ended September 30, 2013. Cash used in investing activities of $95 million for the fiscal year ended September 30, 2015 consisted of $16 million of net business acquisitions, $16 million to acquire music publishing rights and $63 million of capital expenditures mainly related to IT.

Cash used in investing activities of $155 million for the fiscal year ended September 30, 2014 consisted of $53 million of net business acquisitions, $26 million to acquire music publishing rights and $76 million of capital expenditures mainly related to IT. The business acquisition payments represent cash paid for new acquisitions as well as contingent consideration on business acquisitions completed in prior years.

Cash used in investing activities of $808 million for the fiscal year ended September 30, 2013 consisted of $737 million, net business acquisitions, primarily the acquisition of PLG, $37 million to acquire music publishing rights and $34 million for capital expenditures mainly related to IT.

Financing Activities

Cash used in financing activities was $19 million for the fiscal year ended September 30, 2015 compared to cash provided by financing activities of $37 million for the fiscal year ended September 30, 2014 and cash provided by financing activities of $511 million for the fiscal year ended September 30, 2013.

The $19 million of cash used in financing activities for the fiscal year ended September 30, 2015 represented $13 million in amortization payments on the Senior Term Loan Facility, $3 million of repayments on our capital lease obligation and $3 million of distributions to our non-controlling interest holders.

The $37 million of cash provided by financing activities for the fiscal year ended September 30, 2014 reflected the $53 million net proceeds from the 2014 Refinancing, which included proceeds from the issuance of $935 million in new notes offset by $765 million in repayment of principal debt, $104 million of premiums and consent fees and $13 million of deferred financing costs. It also included $10 million in amortization payments on the Senior Term Loan Facility, $3 million of repayments on our capital lease obligation and $3 million of distributions to our non-controlling interest holders.

The $511 million of cash provided by financing activities for the fiscal year ended September 30, 2013 included the repayment of $1.250 billion of Existing Secured Notes due 2016, proceeds from the issuance of the Existing Senior Secured Notes of $727 million and subsequent repayment of $73 million, proceeds from the Senior Term Loan Facility of $1.412 billion and subsequent repayment of $110 million, $129 million of premiums and consent fees, $62 million of deferred financing costs, and $4 million of distributions to non-controlling interest holders.

The total gross amount of proceeds from the Revolving Credit Facility of $258 million, $600 million and $136 million during the fiscal years ended September 30, 2015, 2014 and 2013, respectively, were an aggregate of all drawdowns during each period. Individual amounts were drawn and repaid in full during the period, with no Revolving Credit Facility balance outstanding at September 30, 2015, 2014 or 2013, mainly to supplement short-term U.S. operating liquidity needs throughout the period. As of September 30, 2014 and September 30, 2013, a significant portion of our operating cash balance resided outside of our U.S. operating companies.

Liquidity

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

Revolving Credit Facility

On November 1, 2012 (the "2012 Refinancing Closing Date"), Acquisition Corp. entered into a credit agreement dated November 1, 2012, as amended by the amendment dated as of April 23, 2013 (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"). On March 25, 2014, Warner Music Group received lender consent to an amendment (the "Revolving Credit Agreement Amendment") to the credit agreement for its Revolving Credit Facility. The Revolving Credit Agreement Amendment became effective on April 9, 2014. The Revolving Credit Agreement Amendment extends the maturity date of the Revolving Credit Facility to April 1, 2019 and modifies the maximum leverage ratio in certain periods.

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

Interest Rates and Fees

Borrowings under the Revolving Credit Agreement bear interest at the Revolving Borrower's election at a rate equal to (i) the rate for deposits in the borrowing currency in the London interbank market (adjusted for maximum reserves) for the applicable interest period ("Revolving LIBOR"), plus 2.00% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent as its prime in effect at its principal office in New York City from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) the one-month Revolving LIBOR plus 1.0% per annum, plus, in each case, 1.00% per annum.

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

The 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 under the Revolving Credit Facility, 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.

Voluntary reductions of the unutilized portion of the Commitments under the Revolving Credit Facility are permitted at any time, in minimum principal amounts of $5 million or a whole multiple of $1 million in excess thereof, without premium or penalty. Voluntary prepayments of borrowings under the Revolving Credit Facility are permitted at any time, in minimum principal amounts of $1 million, or £1 million, or €1 million (as applicable) or a whole multiple of $500,000, or £500,000, or €500,000 (as applicable) in excess thereof, subject to reimbursement of the lenders' redeployment costs actually incurred in the case of a prepayment of Revolving 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, including the Senior Term Loan Facility, the Existing Senior Secured Notes, the Existing Senior Notes, Acquisition Corp.'s 5.625% Senior Secured Notes due 2022 (the "New Senior Secured Notes") issued on April 9, 2014 and Acquisition Corp.'s 6.750% Senior Notes due 2022 (the "New Senior Unsecured Notes") issued on April 9, 2014. 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 Senior Term Loan Credit Agreement, the Existing Senior Secured Notes, and any future senior secured credit facility; is effectively senior to the Revolving Borrower's existing and future unsecured senior indebtedness, 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)).

Guarantees

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 Existing Senior 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 million (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 million).

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.

Senior Term Loan Facility

On the 2012 Refinancing Closing Date, Acquisition Corp. entered into a $600 million senior secured term loan credit facility, dated November 1, 2012, pursuant to a credit agreement (the “Senior Term Loan Credit Agreement”) with Credit Suisse AG, as administrative agent and collateral agent, and the other financial institutions and lenders from time to time party thereto (as described below, the “Senior Term Loan Facility” and, together with the Revolving Credit Facility, the “Senior Credit Facilities”).

General

Acquisition Corp. is the borrower under the Senior Term Loan Facility (the “Term Loan Borrower”). On May 9, 2013, the Term Loan Borrower entered into an amendment to the Senior Term Loan Facility among the Term Loan Borrower, Holdings, the subsidiaries of the Term Loan Borrower party thereto, Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto, providing for the refinancing of the then outstanding term loan and for a $820 million senior secured incremental term loan facility, which was drawn on July 1, 2013. Currently, the Senior Term Loan Facility provides for term loans thereunder (the “Term Loans”) in an amount of up to $1,310 million.

The loans outstanding under the Senior Term Loan Facility mature on July 1, 2020.

The Senior Term Loan Facility amortizes in equal quarterly installments in aggregate annual amounts equal to 1.00% of the original principal amount of the Senior Term Loan Facility. In addition, the Senior Term Loan Credit Agreement provides the right for individual lenders to extend the maturity date of their loans upon the request of the Term Loan Borrower and without the consent of any other lender.

Subject to certain conditions, without the consent of the then existing lenders (but subject to the receipt of commitments), the Senior Term Loan Facility may be expanded (or a new term loan facility entered into) by up to the greater of (i) $300 million and (ii) such additional amount as would not cause the net senior secured leverage ratio, after giving effect to the incurrence of such additional amount and any use of proceeds thereof, to exceed 3.50:1.00.

Interest Rates and Fees

The loans under the Senior 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"), plus 2.75%, or (ii) the base rate, which will be the highest of (x) the corporate base rate established by the administrative agent as its prime rate in effect at its principal office in New York City from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) one-month Term Loan LIBOR, plus 1.00% per annum, plus, in each case, 1.75% per annum. The loans under the Senior Term Loan Credit Agreement are subject to a Term Loan LIBOR "floor" of 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 Senior Term Loan Facility.

Prepayments

The Senior Term Loan Facility is subject to mandatory prepayment and reduction in an amount equal to (a) 50% of excess cash flow (as defined in the Senior Term Loan Credit Agreement), with reductions to 25% and zero based upon achievement of a net senior secured leverage ratio of less than or equal to 2.00:1.00 or 1.50:1.00, respectively, (b) 100% of the net cash proceeds received from the incurrence of indebtedness by the Term Loan Borrower or any of its restricted subsidiaries (other than indebtedness permitted under the Senior Term Loan Facility), and (c) 100% of the net cash proceeds of all non-ordinary course asset sales or other dispositions of property by the Term Loan Borrower and its restricted subsidiaries (including certain insurance and condemnation proceeds) in excess of $75 million and subject to the right of the Term Loan Borrower and its restricted subsidiaries to reinvest such proceeds within a specified period of time, and other exceptions. Voluntary prepayments of borrowings under the Senior Term Loan Facility are permitted at any time, in minimum principal amounts of $1 million or a whole multiple of $500,000 in excess thereof, subject to reimbursement of the lenders' redeployment costs actually incurred in the case of a prepayment of Term Loan LIBOR-based borrowings other than on the last day of the relevant interest period.

Guarantee; Security

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.

All obligations of the Term Loan Borrower and each guarantor are secured on an equal basis with the Existing Senior Secured Notes and the New Senior Secured Notes by a perfected security interest in the capital stock of the Term Loan Borrower and substantially all tangible and intangible assets of the Term Loan Borrower and each guarantor, including the capital stock of each direct material U.S. subsidiary of the Term Loan Borrower and each guarantor, and 65% of each series of capital stock of any non-U.S. subsidiary held directly by the Term Loan Borrower or any guarantor, subject to exceptions for fee owned real property with a value of less than $5 million, leasehold interests including requirements to deliver landlord lien waivers, estoppels and collateral access waivers, assets specifically requiring perfection through control agreements and other customary exceptions.

Covenants, Representations and Warranties

The Senior Term Loan Facility contains customary representations and warranties and customary affirmative and negative covenants. The negative covenants are incurrence-based high yield covenants and limit the ability of the Term Loan Borrower and its restricted subsidiaries to: incur additional indebtedness or issue certain preferred shares; pay dividends, redeem stock or make other distributions; repurchase, prepay or redeem subordinated indebtedness; make investments; create restrictions on the ability of our restricted subsidiaries to pay dividends to us or make other intercompany transfers; create liens; transfer or sell assets; consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; enter into certain transactions with affiliates; and designate subsidiaries as unrestricted subsidiaries. The negative covenants are subject to customary exceptions. There are no financial covenants included in the Senior Term Loan Credit Agreement.

Events of Default

Events of default under the Senior Term Loan Credit Agreement are limited to nonpayment of principal when due, nonpayment of interest or other amounts, inaccuracy of representations or warranties in any material respect, violation of covenants, cross default and cross acceleration to other material debt, certain bankruptcy or insolvency events, certain ERISA events, certain material judgments, actual or asserted invalidity of security interests in excess of $50 million, and upon a change of control, in each case subject to customary thresholds, notice and grace period provisions.

Existing Senior Secured Notes

General

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 “Existing Senior Secured Notes”) under the Indenture, dated as of November 1, 2012 (the “Base Indenture”), among the Acquisition Corp., 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 Acquisition Corp., 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 "Existing Senior Secured Notes Indenture").

Interest on the Dollar Notes accrues at the rate of 6.000% per annum and is payable semi-annually in arrears on January 15 and July 15, commencing on July 15, 2013. Interest on the Euro Notes accrues at the rate of 6.250% per annum and is 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.

Ranking

The Existing Senior Secured Notes are Acquisition Corp.'s senior secured obligations. The Existing Senior Secured 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 Senior Secured Notes and indebtedness under the Senior Credit Facilities; are effectively senior to Acquisition Corp.'s existing and future unsecured senior indebtedness, including the New Unsecured Notes, to the extent of the value of the collateral securing the Existing Senior Secured Notes; 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; Security

The Existing Senior Secured Notes are fully and unconditionally guaranteed on a senior secured 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 New Senior Secured Notes, and indebtedness under the Senior Credit Facilities; ranks equally in right of payment to all of such subsidiary guarantor's existing and future secured indebtedness, including such subsidiary guarantor's guarantee of the New Senior Secured Notes, to the extent of the value of the collateral securing the Existing Senior Secured Notes; 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 Existing Senior Secured Notes may be released in certain circumstances. The Existing Senior Secured Notes are not guaranteed by Holdings.

On November 16, 2012, Parent issued a guarantee whereby it fully and unconditionally guaranteed the payments of Acquisition Corp. on the Existing Senior Secured Notes.

The obligations of Acquisition Corp. and each subsidiary guarantor under the Existing Senior Secured Notes are secured by substantially all assets of Acquisition Corp. and each subsidiary guarantor to the extent required under the security agreement securing the Existing Senior Secured Notes and the Senior Credit Facilities, including a perfected pledge of all the equity interests of Acquisition Corp. and of any subsidiary guarantor, mortgages on certain real property and certain intellectual property.

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 notes constituting Dollar Notes) issued under the Existing Senior Secured 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 Existing Senior Secured Notes Indenture (including the aggregate principal amount of any additional notes constituting Dollar 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 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 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 notes 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 notes constituting Euro Notes) issued under the Existing Senior Secured 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 Existing Senior Secured Notes Indenture (including the aggregate principal amount of any additional notes 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 Acquisition Corp., 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	%

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 notes 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 certain events constituting a change of control, Acquisition Corp. is required to make an offer to repurchase all of the Existing Senior Secured 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 Existing Senior Secured 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 Existing Senior Secured Notes Indenture are limited to: the nonpayment of principal or interest when due, violation of covenants and other agreements contained in the Existing Senior Secured Notes Indenture, cross payment default after final maturity and cross acceleration of certain material debt; certain bankruptcy and insolvency events, material judgment defaults, actual or asserted invalidity of a guarantee of a significant subsidiary, or of security interests in excess of $50 million, 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 Existing Senior Secured Notes to become or to be declared due and payable.

Holdings Notes

General

On July 20, 2011, WM Holdings Finance Corp. (the "Initial Holdings Issuer"), which was merged with and into Holdings (the "Holdings Merger"), issued $150 million aggregate principal amount of 13.75% Senior Notes due 2019 (the "Holdings Notes") pursuant to the indenture, dated as of the July 20, 2011 (as amended and supplemented, the "Holdings Notes Indenture"), between the Initial Holdings Issuer and Wells Fargo Bank, as Trustee. Following the completion of the Holdings Merger on the July 20, 2011, Holdings entered into a Supplemental Indenture, dated as of July 20, 2011, with Wells Fargo, as 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 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 Senior Secured Notes, Existing Unsecured Notes, the New Senior Secured Notes, the New Unsecured Notes and indebtedness under the Senior Credit Facilities, 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), including the outstanding debt securities of Acquisition Corp. and the indebtedness under the Senior Credit Facilities to the extent of the assets of such subsidiaries.

Guarantee

The Holdings Notes are not guaranteed by any of Holdings' subsidiaries. On August 2, 2011, the Company issued a guarantee whereby it agreed to fully and unconditionally guarantee the payments of Holdings related to the Holdings Notes.

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, if any, on the Holdings 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	%

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. 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.

Existing Unsecured Notes

On July 20, 2011, WM Finance Corp. (the "Initial OpCo Issuer"), which was merged with and into the Acquisition Corp., issued $765 million aggregate principal amount of 11.50% Senior Notes due 2018 (the "Existing Unsecured Notes") pursuant to the Existing Unsecured Notes Indenture, between the Initial OpCo Issuer, the guarantors party thereto and Wells Fargo Bank, National Association ("Wells Fargo") as trustee. Following the completion of the Merger on July 20, 2011, Acquisition Corp. and certain of its domestic subsidiaries (the "Guarantors") entered into a Supplemental Indenture, dated as of July 20, 2011, with Wells Fargo, as trustee, pursuant to which (i) Acquisition Corp. became a party to the Existing Unsecured Notes Indenture and assumed the obligations of the Initial OpCo Issuer under the Existing Unsecured Notes and (ii) each Guarantor became a party to the Existing Unsecured Notes Indenture and provided an unconditional guarantee of the obligations of Acquisition Corp. under the Existing Unsecured Notes.

The Existing Unsecured 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 is being amortized over the term of the Existing Unsecured Notes using the effective interest rate method and reported as non-cash interest expense. The Existing Unsecured Notes mature on October 1, 2018 and bear interest payable semi-annually on April 1 and October 1 of each year at fixed rate of 11.5% per annum.

On March 26, 2014, Acquisition Corp. initiated the tender offer and consent solicitation for any and all of the Existing Unsecured Notes. On April 7, 2014, Acquisition Corp. entered into a supplemental indenture with the Trustee for the indenture pursuant to which the Existing Unsecured Notes are outstanding to eliminate certain restrictive covenants contained in that indenture. On April 9, 2014, (the "Closing Date"), Acquisition Corp. accepted for purchase in connection with the tender offer and related consent solicitation such Existing Unsecured Notes as had been validly tendered and not validly withdrawn at or prior to 5:00 p.m., New York City time, on April 8, 2014. The Existing Unsecured Notes were called on March 26, 2014. Following payment of the Existing Unsecured Notes tendered at or prior to the Consent Time, Acquisition Corp. deposited with the Trustee for the Existing Unsecured Notes funds sufficient to satisfy all obligations remaining under the Existing Unsecured Notes Indenture with respect to the Existing Unsecured Notes not accepted for payment on the Closing Date. The Trustee then entered into a Satisfaction and Discharge of Indenture, dated as of April 9, 2014, with respect to the Existing Unsecured Notes Indenture. Payment for the Existing Unsecured Notes not accepted for purchase in connection with the tender offer was made on April 25, 2014.

New Senior Secured Notes

On April 9, 2014, Acquisition Corp. issued $275 million in aggregate principal amount of its 5.625% Senior Secured Notes due 2022 (the "New Senior Secured Notes") under the Base Indenture, among Acquisition Corp., 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 Fourth Supplemental Indenture, dated as of April 9, 2014 (the "New Secured Notes Supplemental Indenture" and, together with the Base Indenture, the "New Secured Notes Indenture"), among the Acquisition Corp., the guarantors party thereto and the Trustee.

Interest on the New Senior Secured Notes will accrue at the rate of 5.625% per annum and will be payable semi-annually in arrears on April 15 and October 15, commencing on October 15, 2014.

Ranking

The New Senior Secured 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 New Senior Secured Notes. The New Senior Secured Notes rank senior in right of payment to Acquisition Corp.'s subordinated indebtedness; rank equally in right of payment with all of Acquisition Corp.'s existing and future senior indebtedness, including the New Unsecured Notes (as defined below), Acquisition Corp.'s Existing Senior Secured Notes and indebtedness under Acquisition Corp.'s Senior Credit Facilities and any future senior secured credit facility; are effectively senior to Acquisition Corp.'s unsecured senior indebtedness, including the New Unsecured Notes, to the extent of the value of the collateral securing the New Senior Secured Notes; and are structurally subordinated in right of payment 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)).

Guarantees

The New Senior Secured Notes are fully and unconditionally guaranteed on a senior secured basis by each of Acquisition Corp.'s existing direct or indirect wholly-owned domestic restricted subsidiaries and by any such subsidiaries that guarantee obligations of Acquisition Corp. under the 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 New Senior Secured Notes (including the subsidiary guarantor's guarantee of obligations under the Existing Senior Secured Notes and the 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 the New 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 the Senior Credit Facilities and any future senior secured credit facility, the Existing Senior Secured Notes and the New Unsecured Notes; 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 Acquisition Corp. or one of its subsidiary guarantors). Any subsidiary guarantee of the New Senior Secured Notes may be released in certain circumstances. On May 7, 2014, the Parent issued a guarantee whereby it agreed to fully and unconditionally guarantee the payments of Acquisition Corp. on the New Senior Secured Notes.

Optional Redemption

At any time prior to April 15, 2017, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of New Senior Secured Notes (including the aggregate principal amount of any additional securities constituting New Senior Secured Notes) issued under the New Secured Notes Indenture, at its option, at a redemption price equal to 105.625% of the principal amount of the New Senior Secured Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of New Senior Secured 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

New Senior Secured Notes originally issued under the New Secured Notes Indenture (including the aggregate principal amount of any additional securities constituting New Senior Secured Notes issued under the New Secured 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.

The New Senior Secured Notes may be redeemed, in whole or in part, at any time prior to April 15, 2017, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the New Senior Secured 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 April 15, 2017, Acquisition Corp. may redeem all or a part of the New Senior Secured 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 New Senior Secured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on April 15 of the years indicated below:

Year	Percentage
2017	104.219 %
2018	102.813 %
2019	101.406 %
2020 and thereafter	100.000 %

In addition, during any 12-month period prior to April 15, 2017, Acquisition Corp. will be entitled to redeem up to 10% of the original aggregate principal amount of the New Senior Secured 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 New Senior Secured Notes has the right to require Acquisition Corp. to repurchase some or all of such holder’s New Senior Secured 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 New Secured Notes 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 New Secured Notes Indenture also provides for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on New Senior Secured Notes to become or to be declared due and payable.

New Unsecured Notes

On April 9, 2014, Acquisition Corp. issued $660 million in aggregate principal amount of its 6.750% Senior Notes due 2022 (the “New Unsecured Notes”) under the Indenture, dated as of April 9, 2014 (the “New Unsecured Notes Base Indenture”), among Acquisition Corp., the guarantors party thereto and the Trustee, as supplemented by the First Supplemental Indenture, dated as of April 9, 2014 (the “New Unsecured Notes Supplemental Indenture” and, together with the New Unsecured Notes Base Indenture, the “New Unsecured Notes Indenture”), among the Acquisition Corp., the guarantors party thereto and the Trustee.

Interest on the New Unsecured Notes will accrue at the rate of 6.750% per annum and will be payable semi-annually in arrears on April 15 and October 15, commencing on October 15, 2014.

Ranking

The New Unsecured Notes are Acquisition Corp.'s senior unsecured obligations. The New Unsecured Notes rank senior in right of payment to Acquisition Corp.'s subordinated indebtedness; rank equally in right of payment with all of Acquisition Corp.'s existing and future senior indebtedness, including the Existing Senior Secured Notes, the New Senior Secured Notes and indebtedness outstanding under the Senior Credit Facilities and any future senior secured credit facility; are effectively subordinated to Acquisition Corp.'s secured senior indebtedness, including the Existing Senior Secured Notes, the New Senior Secured Notes and indebtedness under the Senior Credit Facilities and any future senior secured credit facility, to the extent of the value of the collateral securing such indebtedness; and are structurally subordinated in right of payment 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).

Guarantees

The New Unsecured Notes are fully and unconditionally guaranteed on a senior unsecured basis by the subsidiary guarantors. Each subsidiary guarantee is a senior unsecured obligation of such subsidiary guarantor. Each subsidiary guarantee ranks senior in right of payment to all subordinated obligations of the subsidiary guarantor; is effectively subordinated to the subsidiary guarantor's existing secured obligations, including the subsidiary guarantor's guarantee of the Existing Senior Secured Notes, the New Senior Secured Notes and obligations under the Senior Credit Facilities and any future senior secured credit facility, 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 the Existing Senior Secured Notes, the New Senior Secured Notes and the Senior Credit Facilities and any future senior secured credit facility; 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 Acquisition Corp. or one of its subsidiary guarantors). Any subsidiary guarantee of the New Unsecured Notes may be released in certain circumstances. On May 7, 2014, the Parent issued a guarantee whereby it agreed to fully and unconditionally guarantee the payments of Acquisition Corp. on the New Senior Unsecured Notes.

Optional Redemption

At any time prior to April 15, 2017, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of New Unsecured Notes (including the aggregate principal amount of any additional securities constituting New Unsecured Notes) issued under the New Unsecured Notes Indenture, at its option, at a redemption price equal to 106.750% of the principal amount of the New Unsecured Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of New Unsecured 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 New Unsecured Notes originally issued under the New Unsecured Notes Indenture (including the aggregate principal amount of any additional securities constituting New Unsecured Notes issued under the New Unsecured 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.

The New Unsecured Notes may be redeemed, in whole or in part, at any time prior to April 15, 2017, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the New Unsecured 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 April 15, 2017, Acquisition Corp. may redeem all or a part of the New Unsecured 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 New Unsecured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on April 15 of the years indicated below:

Year	Percentage
2017	105.063 %
2018	103.375 %
2019	101.688 %
2020 and thereafter	100.000 %

Change of Control

Upon the occurrence of a change of control, which is defined in the New Unsecured Notes Base Indenture, each holder of the New Unsecured Notes has the right to require Acquisition Corp. to repurchase some or all of such holder's New Unsecured 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 New Unsecured Notes 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 New Unsecured Notes Indenture also provides for events of default which, if any of them occurs, would permit or require the principal of and accrued interest on New Unsecured Notes to become or to be declared due and payable.

Existing Debt as of September 30, 2015

As of September 30, 2015, our long-term debt, including the current portion, was as follows (in millions):

Revolving Credit Facility—Acquisition Corp. (a)	$—
Senior Term Loan Facility due 2020—Acquisition Corp. (b)	1,282
5.625% Senior Secured Notes due 2022—Acquisition Corp.	275
6.00% Senior Secured Notes due 2021—Acquisition Corp.	450
6.25% Senior Secured Notes due 2021—Acquisition Corp. (c)	177
6.75% Senior Notes due 2022—Acquisition Corp.	660
13.75% Senior Notes due 2019—Holdings	150
Total long-term debt, including the current portion	$2,994

(a) Reflects $150 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $5 million at September 30, 2015. There were no loans outstanding under the Revolving Credit Facility at September 30, 2015.

(b) Principal amount of $1.287 billion less unamortized discount of $5 million at September 30, 2015. Of this amount, $13 million, representing the scheduled amortization of the Term Loan, was included in the current portion of long term debt.

(c) Face amount of €158 million. Amount above represents the dollar equivalent of such notes at September 30, 2015.

Covenant Compliance

The Company was in compliance with its covenants under its outstanding notes, Revolving Credit Facility and Senior Term Loan Facility as of September 30, 2015.

Our Revolving Credit Facility contains a springing leverage ratio that is tied to a ratio based on Consolidated EBITDA, which is defined under the Revolving Credit Agreement governing the Revolving Credit Facility. Our ability to borrow funds under our Revolving Credit Facility depends upon our ability to meet the leverage ratio test. 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 the Senior Term Loan Credit Agreement governing our Senior Term Loan Credit Facility use financial measures called “Consolidated EBITDA” or “EBITDA” that have the same definition as Consolidated EBITDA as defined under the Revolving Credit Agreement governing the Revolving Credit Facility.

Consolidated EBITDA is presented herein because it is a material component of the leverage ratio contained in our Revolving Credit Agreement. Non-compliance with the leverage ratio could result in the inability to use our Revolving Credit Facility, which could have a material adverse effect on our results of operations, financial position and cash flow. Consolidated EBITDA does not represent net income or cash from operating activities as those terms are defined by U.S. GAAP and does not necessarily indicate whether cash flows will be sufficient to fund cash needs. While Consolidated EBITDA and similar measures are frequently used as measures of operations and the ability to meet debt service requirements, these terms are not necessarily comparable to other similarly titled captions of other companies due to the potential inconsistencies in the method of calculation. Consolidated EBITDA does not reflect the impact of earnings or charges resulting from matters that we may consider not to be indicative of our ongoing operations. In particular, the definition of Consolidated EBITDA in the Revolving Credit Agreement allows us to add back certain non-cash, extraordinary, unusual or non-recurring charges that are deducted in calculating net income. However, these are expenses that may recur, vary greatly and are difficult to predict.

Consolidated EBITDA as presented below is not a measure of the performance of our business and should not be used by investors as an indicator of performance for any future period. Further, our debt instruments require that it be calculated for the most recent four fiscal quarters. As a result, the measure can be disproportionately affected by a particularly strong or weak quarter. Further, it may not be comparable to the measure for any subsequent four quarter period or any complete fiscal year. In addition, our debt instruments require that the leverage ratio be calculated on a pro forma basis for certain transactions including acquisitions as if such transactions had occurred on the first date of the measurement period and may include expected cost savings and synergies resulting from or related to any such transaction. There can be no assurances that any such cost savings or synergies will be achieved in full.

The following is a reconciliation of net loss, which is a U.S. 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, or twelve months ended September 30, 2015. 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, 2015		
Net Loss	$	(66	)
Income tax expense		13	
Interest expense, net		159	
Depreciation and amortization		309	
Restructuring costs (a)		19	
Net hedging and foreign exchange losses (b)		26	
Management fees (c)		9	
Transaction costs (d)		5	
Business optimization expenses (e)		9	
Equity based compensation expense (f)		3	
Other non-cash charges (g)		3	
Pro forma impact of specified transactions (h)		21	
Pro Forma Consolidated EBITDA	$	510	
Consolidated Funded Indebtedness (i)	$	2,746	
Leverage Ratio (j)	5.38x		

(a) Reflects severance costs and other restructuring related expenses.
(b) Reflects net losses from hedging activities and realized losses due to foreign exchange.
(c) Reflects management fees paid to Access, including an annual fee and related expenses (excludes expenses reimbursed related to certain consultants with full-time roles at the Company). Pursuant to the Company’s and Holdings’ management agreement with Access, the base amount of the annual fee is approximately $9 million, subject to certain potential upward adjustments.
(d) Reflects mainly integration and other nonrecurring costs related to the PLG Acquisition.
(e) Reflects primarily costs associated with IT systems updates.
(f) Reflects compensation expense related to the Warner Music Group Corp. Senior Management Free Cash Flow Plan.
(g) Reflects non-cash charges not included in other items above, including but not limited to loss on lease terminations.
(h) Pro forma savings reflected in the table above relate to expected savings resulting from our cost-containment initiatives.
(i) Reflects the principal balance of external debt at Acquisition Corp of approximately $2.848 billion, plus the annualized daily revolver borrowings of $19 million, plus contractual obligations of deferred purchase price of $13 million, plus contingent

consideration related to acquisitions of $2 million, plus the implied principal component under capital lease obligation of $14 million, less cash and equivalents up to $150 million.

(j) Reflects the ratio of Consolidated Funded Indebtedness to Consolidated EBITDA as of the twelve months ended September 30, 2015. This is calculated net of cash and equivalents of the Company as of September 30, 2015 not exceeding $150 million. If the outstanding aggregate principal amount of borrowings under our Revolving Credit Facility is greater than $30 million at the end of a fiscal quarter, the maximum leverage ratio permitted under our Revolving Credit Facility was 5.75x as of the quarter ending September 30, 2015. The maximum leverage ratio permitted will be 5.50x as of the end of each fiscal quarter of fiscal 2016. The Company's Revolving Credit Facility does not impose any "leverage ratio" restrictions on the Company when the aggregate principal amount of borrowings under the Revolving Credit Facility is less than $30 million at the end of a fiscal quarter.

Summary

Management believes that funds generated from our operations and borrowings under our Revolving Credit Facility will be sufficient to fund our debt service requirements, working capital requirements and capital expenditure requirements for the foreseeable future. We also have additional borrowing capacity under our indentures and Senior Term Loan Facility. However, our ability to continue to fund these items and to reduce debt may be affected by general economic, financial, competitive, legislative and regulatory factors, as well as other industry-specific factors such as the ability to control music piracy and the continued transition from physical to digital sales in the recorded music business. We or any of our affiliates may also, from time to time depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to prepay outstanding debt or repurchase Holdings' or Acquisition Corp.'s outstanding debt or debt securities in open market purchases, privately negotiated purchases or otherwise. The amounts involved in any such transactions, individually or in the aggregate, may be material and may be funded from available cash or from additional borrowings. In addition, we may from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to refinance our Senior Credit Facilities or our, or Holdings', outstanding debt securities with existing cash and/or with funds provided from additional borrowings.

Contractual and Other Obligations

Firm Commitments

The following table summarizes the Company's aggregate contractual obligations at September 30, 2015, and the estimated timing and effect that such obligations are expected to have on the Company's liquidity and cash flow in future periods.

Firm Commitments and Outstanding Debt	Less than 1 year	1-3 years	4-5 years	After 5 years	Total
	(in millions)				
Secured Notes (1)	$—	$—	$—	$902	$902
Interest on Secured Notes (1)	54	107	107	50	318
Unsecured WMG Notes (1)	—	—	—	660	660
Interest on Unsecured WMG Notes (1)	45	89	89	89	312
Holdings Notes (1)	—	—	150	—	150
Interest on Holdings Notes (1)	21	41	31	—	93
Senior Term Loan Facility (1)	13	26	1,248	—	1,287
Interest on Senior Term Loan Facility (1)	61	84	98	—	243

Operating leases (2)	57	91	74	210	432
Artist, songwriter and co-publisher commitments (3)	318	*	*	*	318
Management Fees (4)	9	18	18	**	45
Minimum funding commitments to investees and other obligations (5)	3	1	—	1	5
Total firm commitments and outstanding debt	$581	$457	$1,815	$1,912	$4,765

The following is a description of our firmly committed contractual obligations at September 30, 2015:

(1) Outstanding debt obligations consist of the Senior Term Loan Facility, Dollar Notes, Euro Notes, New Senior Secured Notes, New Unsecured Notes and the Holdings Notes. These obligations have been presented based on the principal amounts due, current and long term as of September 30, 2015. Amounts do not include any fair value adjustments, bond premiums or discounts.

(2) Operating lease obligations primarily relate to the minimum lease rental obligations for our real estate and operating equipment in various locations around the world. These obligations have been presented without the benefit of $9 million of total sublease

income expected to be received under non-cancelable agreements. These obligations have also been presented without the commitments under the Restructuring Plan as set forth in Note 10 to the Consolidated Financial Statements.

(3) The Company routinely enters into long-term commitments with artists, songwriters and publishers for the future delivery of music product. Such commitments generally become due only upon delivery and Company acceptance of albums from the artists or future musical compositions by songwriters and publishers. Additionally, such commitments are typically cancelable at the Company's discretion, generally without penalty. Based on contractual obligations, aggregate firm commitments to such talent approximate $318 million at September 30, 2015. The aggregate firm commitments expected for the next 12 month period based on contractual obligations and the Company's expected release schedule approximates $183 million at September 30, 2015.

(4) Pursuant to the Management Agreement, the Company, or one or more of its subsidiaries, will pay Access an 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 and (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. The Company or one or more of its subsidiaries will also pay Access a specified transaction fee for certain types of transactions completed by Holdings or one or more of its subsidiaries, plus expenses.

(5) We have minimum funding commitments and other related obligations to support the operations of various investments, which are reflected in the table above. Other long-term liabilities include $14 million and $27 million of liabilities for uncertain tax positions as of September 30, 2015 and September 30, 2014, respectively. We are unable to accurately predict when these amounts will be realized or released.

* Because the timing of payment, and even whether payment occurs, is dependent upon the timing of delivery of albums and musical compositions from talent, the timing and amount of payment of these commitments as presented in the above summary can vary significantly.

** Per the above explanation, the minimum annual fee will be approximately $9 million per year. This amount may vary based on the terms described above; and will continue as long as the Management Agreement remains unmodified and effective.

CRITICAL ACCOUNTING POLICIES

The SEC's Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR 60"), suggests companies provide additional disclosure and commentary on those accounting policies considered most critical. FRR 60 considers an accounting policy to be critical if it is important to our financial condition and results, and requires significant judgment and estimates on the part of management in our application. We believe the following list represents critical accounting policies as contemplated by FRR 60. For a summary of all of our significant accounting policies, see Note 2 to our audited Consolidated Financial Statements included elsewhere herein.

Business Combinations

We account for our business acquisitions under the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, Business Combinations ("ASC 805") guidance for business combinations. The total cost of acquisitions is allocated to the underlying identifiable net assets based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives and market multiples, among other items. If our assumptions or estimates in the fair value calculation change, the fair value of our acquired intangible assets could change; this would also change the value of our goodwill.

Accounting for Goodwill and Other Intangible Assets

We account for our goodwill and other indefinite-lived intangible assets as required by FASB Accounting Standards Codification (“ASC”) Topic 350, Intangibles—Goodwill and Other (“ASC 350”). Under ASC 350, we do not amortize goodwill, including the goodwill included in the carrying value of investments accounted for using the equity method of accounting, and certain other intangible assets deemed to have an indefinite useful life. ASC 350 requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques on an annual basis and when events occur that may suggest that the fair value of such assets cannot support the carrying value. ASC 350 gives an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, then performing the two-step impairment test is unnecessary. However, if an entity concludes otherwise, then it is required to perform the step one of the two-step process. The first step of the goodwill impairment test is used to identify potential impairment by comparing the fair value of a reporting unit with its net book value (or carrying amount), including goodwill.

In performing the first step, management determines the fair value of its reporting units using a combination of a discounted cash flow (“DCF”) analysis and a market-based approach. Determining fair value requires significant judgment concerning the assumptions used in the valuation model, including discount rates, the amount and timing of expected future cash flows and, growth rates, as well as relevant comparable company earnings multiples for the market-based approach including the determination of whether a premium or discount should be applied to those comparables. The cash flows employed in the DCF analysis are based on management’s most recent budgets and business plans and when applicable, various growth rates have been assumed for years beyond the current business plan periods. Any forecast contains a degree of uncertainty and modifications to these cash flows could significantly increase or decrease the fair value of a reporting unit. For example, if revenue from sales of physical products continues to decline and the revenue from sales of digital products does not continue to grow as expected and we are unable to adjust costs accordingly, it could have a negative impact on future impairment tests. In determining which discount rate to utilize, management determines the appropriate weighted average cost of capital (“WACC”) for each reporting unit. Management considers many factors in selecting a WACC, including the market view of risk for each individual reporting unit, the appropriate capital structure and the appropriate borrowing rates for each reporting unit. The selection of a WACC is subjective and modification to this rate could significantly increase or decrease the fair value of a reporting unit.

If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of a reporting unit exceeds its fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. The second step of the goodwill impairment test compares the implied fair value of the reporting unit’s goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit’s goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. That is, the fair value of the reporting unit is allocated to all of the assets and liabilities of that unit (including any unrecognized intangible assets) as if the reporting unit had been acquired in a business combination and the fair value of the reporting unit was the purchase price paid to acquire the reporting unit.

As of September 30, 2015, we had recorded goodwill in the amount of $1.632 billion, including $1.168 billion and $464 million for Recorded Music and Music Publishing, respectively, primarily related to the Merger and PLG Acquisition. We test our goodwill and other indefinite-lived intangible assets for impairment on an annual basis in the fourth quarter of each fiscal year as of July 1. The performance of our fiscal 2015 impairment analysis did not result in an impairment of the Company’s goodwill and other indefinite-lived intangible assets. The discount rates utilized in the fiscal 2015 analysis ranged from 7% to 13% while the terminal growth rates used in the DCF analysis ranged from 1% to 2%. The fair values of all our reporting units were in excess of their carrying value as of our annual impairment test. The fair value of Music Publishing reporting unit was close to its carrying value and was 6% in excess of its carrying value at September 30, 2015.

If our assumptions or estimates in the fair value calculation change, we could incur impairment charges in future periods. For example, if the discount rates or terminal growth rates utilized in our fiscal 2015 annual impairment testing increased or decreased, respectively, by approximately 50-150 basis points, the estimated fair value of our Music Publishing reporting unit would have fallen below its carrying value. If our growth assumptions in the streaming business do not occur, they could have a negative effect on our estimated fair values, although a decrease of 50-150 basis points in the growth rate assumption would not negatively impact the fair value of the reporting units to fall below its carrying value.

The impairment test for other intangible assets not subject to amortization involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using a DCF analysis. Common among such approaches is the “relief from royalty” methodology, which is used in estimating the fair value of the Company’s trademarks. Discount rate assumptions are based on an assessment of the risk inherent in the projected future cash flows generated by the respective intangible assets. Also subject to judgment are assumptions about royalty rates, which are based on the estimated rates at which similar trademarks are being licensed in the marketplace.

See Note 6 to the Consolidated Financial Statements for a further discussion of our goodwill and intangible assets.

Revenue and Cost Recognition

Sales Returns and Uncollectible Accounts

In accordance with practice in the recorded music industry and as customary in many territories, certain products (such as CDs and DVDs) are sold to customers with the right to return unsold items. Under FASB ASC Topic 605, Revenue Recognition, revenues from such sales are recognized when the products are shipped based on gross sales less a provision for future estimated returns.

In determining the estimate of physical product sales that will be returned, management analyzes vendor sales of product historical returns trend, current economic conditions, changes in customer demand and commercial acceptance of our products. Based on this information, management reserves a percentage of each dollar of physical product sales that provide the customer with the right of return.

Similarly, management evaluates accounts receivables to determine if they will ultimately be collected. In performing this evaluation, significant judgments and estimates are involved, including an analysis of specific risks on a customer-by-customer basis for larger accounts and customers, and a receivables aging analysis that determines the percent that has historically been uncollected by aged category. Based on this information, management provides a reserve for the estimated amounts believed to be uncollectible.

Based on management's analysis of sales returns and uncollectible accounts, reserves totaling $56 million and $65 million were established at September 30, 2015 and September 30, 2014, respectively. The ratio of our receivable allowances to gross accounts receivables was 14% at September 30, 2015 and 15% at September 30, 2014.

Gross Versus Net Revenue Classification

In the normal course of business, we act as an intermediary or agent with respect to certain payments received from third parties. For example, we distribute music product on behalf of third-party record labels.

The accounting issue encountered in these arrangements is whether we should report revenue based on the "gross" amount billed to the customer or on the "net" amount received from the customer after participation and other royalties paid to third parties. To the extent revenues are recorded gross (in the full amount billed), any participations and royalties paid to third parties are recorded as expenses so that the net amount (gross revenues, less expenses) flows through operating income. Accordingly, the impact on operating income is the same, whether we record the revenue on a gross basis or net basis (less related participations and royalties).

Determining whether revenue should be reported gross or net is based on an assessment of whether we are acting as the "principal" in a transaction or acting as an "agent" in the transaction. To the extent we are acting as a principal in a transaction, we report as revenue the payments received on a gross basis. To the extent we are acting as an agent in a transaction, we report as revenue the payments received less participations and royalties paid to third parties, i.e., on a net basis. The determination of whether we are serving as principal or agent in a transaction is judgmental in nature and based on an evaluation of the terms of an arrangement.

In determining whether we serve as principal or agent in these arrangements, we follow the guidance in FASB ASC Subtopic 605-45, Principal Agent Considerations ("ASC 605-45"). Pursuant to such guidance, we serve as the principal in transactions where we have the substantial risks and rewards of ownership. The indicators that we have substantial risks and rewards of ownership are as follows:

- we are the supplier of the products or services to the customer;
- we have latitude in establishing prices;
- we have the contractual relationship with the ultimate customer;
- we modify and service the product purchased to meet the ultimate customer specifications;
- we have discretion in supplier selection; and
- we have credit risk.

Conversely, pursuant to ASC 605-45, we serve as agent in arrangements where we do not have substantial risks and rewards of ownership. The indicators that we do not have substantial risks and rewards of ownership are as follows:

- the supplier (not the Company) is responsible for providing the product or service to the customer;

the supplier (not the Company) has latitude in establishing prices;
the amount we earn is fixed;
the supplier (not the Company) has credit risk; and
the supplier (not the Company) has general inventory risk for a product before it is sold.

Based on the above criteria and for the more significant transactions that we have evaluated, we record the distribution of product on behalf of third-party record labels on a gross basis, subject to the terms of the contract. Recorded music compilations distributed by other record companies where we have a right to participate in the profits are recorded on a net basis.

Accounting for Royalty Advances

We regularly commit to and pay royalty advances to our recording artists and songwriters in respect of future sales. We account for these advances under the related guidance in FASB ASC Topic 928, Entertainment—Music (“ASC 928”). Under ASC 928, we capitalize as assets certain advances that we believe are recoverable from future royalties to be earned by the recording artist or songwriter. Advances vary in both amount and expected life based on the underlying recording artist or songwriter. Advances to recording artists or songwriters with a history of successful commercial acceptability will typically be larger than advances to a newer or unproven recording artist or songwriter. In addition, in most cases these advances represent a multi-album release or multi-song obligation and the number of albums releases and songs will vary by recording artist or songwriter.

Management’s decision to capitalize an advance to a recording artist or songwriter as an asset requires significant judgment as to the recoverability of the advance. The recoverability is assessed upon initial commitment of the advance based upon management’s forecast of anticipated revenue from the sale of future and existing albums or songs. In determining whether the advance is recoverable, management evaluates the current and past popularity of the recording artist or songwriter, the sales history of the recording artist or songwriter, the initial or expected commercial acceptability of the product, the current and past popularity of the genre of music that the product is designed to appeal to, and other relevant factors. Based upon this information, management expenses the portion of any advance that it believes is not recoverable. In most cases, advances to recording artists or songwriters without a history of success and evidence of current or past popularity will be expensed immediately. Advances are individually assessed for recoverability continuously and at minimum on a quarterly basis. As part of the ongoing assessment of recoverability, we monitor the projection of future sales based on the current environment, the recording artist’s or songwriter’s ability to meet their contractual obligations as well as our intent to support future album releases or songs from the recording artist or songwriter. To the extent that a portion of an outstanding advance is no longer deemed recoverable, that amount will be expensed in the period the determination is made.

We had $325 million and $292 million of advances in our balance sheet at September 30, 2015 and September 30, 2014, respectively. We believe such advances are recoverable through future royalties to be earned by the applicable recording artists and songwriters.

Accounting for Income Taxes

As part of the process of preparing the Consolidated Financial Statements, we are required to estimate income taxes payable in each of the jurisdictions in which we operate. This process involves estimating the actual current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. FASB ASC Topic 740, Income Taxes (“ASC 740”), requires a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. In circumstances where there is sufficient negative evidence, establishment of a valuation allowance must be considered. We believe that cumulative losses in the most recent three-year period generally represent sufficient negative evidence to consider a valuation allowance under the provisions of ASC 740. As a result, we determined that certain of our deferred tax assets required the establishment of a valuation allowance.

The realization of the remaining deferred tax assets is primarily dependent on forecasted future taxable income. Any reduction in estimated forecasted future taxable income may require that we record additional valuation allowances against our deferred tax assets on which a valuation allowance has not previously been established. The valuation allowance that has been established will be maintained until there is sufficient positive evidence to conclude that it is more likely than not that such assets will be realized. An ongoing pattern of profitability will generally be considered as sufficient positive evidence. Our income tax expense recorded in the future may be reduced to the extent of offsetting decreases in our valuation allowance. The establishment and reversal of valuation allowances could have a significant negative or positive impact on our future earnings.

From time to time, the Company engages in transactions in which the tax consequences may be subject to uncertainty. Significant judgment is required in assessing and estimating the tax consequences of these transactions. The Company prepares and files tax returns based on its interpretation of tax laws and regulations. In the normal course of business, the Company's tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. In determining the Company's tax provision for financial reporting purposes, the Company establishes a reserve for uncertain tax positions unless such positions are determined to be more likely than not of being sustained upon examination based on their technical merits. There is considerable judgment involved in determining whether positions taken on the Company's tax returns are more likely than not of being sustained.

Accounting for Share-based Compensation

Share-based compensation represents compensation payment for which the amounts are based on the fair market value of the Company's shares. The Company's Senior Management Long Term Incentive Plan is classified as a liability rather than equity under ASC 718. Liability classified share-based compensation costs are measured at fair value each reporting date until settlement. Because it is not practical for the Company to estimate the volatility of its share price needed to use the fair value approach since our stock is not currently publically traded, the Company has made a policy election that whenever share-based payment awards are required to be measured as a liability, the Company will use the intrinsic value method to measure the costs. Under the intrinsic value method, the Company obtains a valuation of our presumed stock price at least annually (or more frequently for significant changes in the business) and re-measures the related awards using this new price, recognizing compensation costs for the difference between the existing price and new price.

Determining fair value requires significant judgment concerning the assumptions used in the valuation model, including discount rates, the amount and timing of expected future cash flows and, growth rates, as well as relevant comparable company earnings multiples for the market-based approach including the determination of whether a premium or discount should be applied to those comparables. The cash flows employed in the DCF analysis are based on management's most recent budgets and business plans and when applicable, various growth rates have been assumed for years beyond the current business plan periods. Any forecast contains a degree of uncertainty and modifications to these cash flows could significantly increase or decrease the fair value of the presumed share price. For example, if revenue from sales of physical products continues to decline and the revenue from sales of digital products does not continue to grow as expected and we are unable to adjust costs accordingly, it could have a negative impact on future pricing. In determining which discount rate to utilize, management determines the appropriate weighted average cost of capital ("WACC") for the Company. Management considers many factors in selecting a WACC, including the market view of risk, the appropriate capital structure and the appropriate borrowing rates for the Company. The selection of a WACC is subjective and modification to this rate could significantly increase or decrease the fair value of our presumed share price.

New Accounting Principles

In addition to the critical accounting policies discussed above, we adopted several new accounting policies during the past three years. None of these new accounting principles had a material effect on our audited financial statements. See Note 2 to our audited Consolidated Financial Statements included elsewhere herein for a complete summary of all our significant accounting policies.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As discussed in Note 14 to our audited Consolidated Financial Statements the Company is exposed to market risk arising from changes in market rates and prices, including movements in foreign currency exchange rates and interest rates. As of September 30, 2015, other than as described below, there have been no material changes to the Company's exposure to market risk since September 30, 2014.

Foreign Currency Risk

Within our global business operations we have transactional exposures that may be adversely affected by changes in foreign currency exchange rates relative to the U.S. dollar. We may at times choose to use foreign exchange currency derivatives, primarily forward contracts, to manage the risk associated with the volatility of future cash flows denominated in foreign currencies, such as unremitted or future royalties and license fees owed to our U.S. domestic companies for the sale, or anticipated sale, of U.S.- copyrighted products sold abroad that may be adversely affected by changes in foreign currency exchange rates. We focus on managing the level of exposure to the risk of foreign currency exchange rate fluctuations on major currencies, which can include the British Pound, Euro, Japanese Yen, Canadian Dollar, Swedish Krona, and Australian Dollar, and in many cases we have natural hedges where we have expenses associated with local operations in the local currency that offset the revenue in local currency and our Euro-denominated debt, which can offset declines in the Euro. As of September 30, 2015, the Company had no outstanding hedge contracts.

The fair value of foreign exchange contracts is subject to changes in foreign currency exchange rates. For the purpose of assessing the specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments. For foreign exchange forward contracts outstanding at fiscal year end, we typically perform a sensitivity analysis assuming a hypothetical 10% depreciation of the U.S. dollar against foreign currencies from prevailing foreign currency exchange rates and assuming no change in interest rates. As we have no hedge contracts outstanding as of September 30, 2015, the fair value of the foreign exchange forward contracts would have no impact. Hypothetically, even if there was a decrease in the fair value of the forward contracts, because our foreign exchange contracts are entered into for hedging purposes, these losses would be largely offset by gains on the underlying transactions.

Interest Rate Risk

We had $2.999 billion of principal debt outstanding at September 30, 2015, of which $1.287 billion was variable rate debt and $1.712 billion was fixed rate debt. As such, we are exposed to changes in interest rates. At September 30, 2015, 57% of the Company's debt was at a fixed rate. In addition, at September 30, 2015, all of our floating rate debt under our Senior Term Loan Facility was subject to a LIBOR floor of 1.0%, which is in excess of the current LIBOR rate. The LIBOR floor has effectively turned these LIBOR loans into fixed rate debt until such time as the LIBOR rate moves higher than the floor.

Based on the level of interest rates prevailing at September 30, 2015, the fair value of the fixed-rate and variable rate debt was approximately $2.976 billion. Further, based on the amount of its fixed-rate debt, a 25 basis point increase or decrease in the level of interest rates would decrease or increase the fair value of the fixed-rate debt by approximately $17 million, respectively. Due to the LIBOR floor of 1%, a 25 basis point increase or decrease in the level of interest rates would have no impact on the fair value of the Company's variable rate debt. This potential increase or decrease is based on the simplified assumption that the level of fixed-rate debt remains constant with an immediate across the board increase or decrease in the level of interest rates with no subsequent changes in rates for the remainder of the period.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA
WARNER MUSIC GROUP CORP.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Contents

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER

FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the U.S. Securities Exchange Act of 1934, as amended. Management designed our internal control systems in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and directors and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Our internal control systems include the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified and are augmented by written policies, an organizational structure providing for division of responsibilities, careful selection and training of qualified financial personnel and a program of internal audits.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework). Based on its evaluation, our management concluded that our internal control over financial reporting was effective as of September 30, 2015.

Report of Independent Registered Public Accounting Firm

The Board of Directors of Warner Music Group Corp.:

We have audited the accompanying consolidated balance sheet of Warner Music Group Corp. and subsidiaries (the Company) as of September 30, 2015, and the related consolidated statements of operations, comprehensive loss, equity, and cash flows for the year then ended. In connection with our audit of the consolidated financial statements, we have also audited the related supplementary information and financial statement schedule II as listed in the accompanying index to Item 8. The consolidated financial statements, supplementary information and financial statement schedule II are the responsibility of the Company’s management. Our responsibility is to express an opinion on the consolidated financial statements, supplementary information and financial statement schedule II based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Warner Music Group Corp. and subsidiaries as of September 30, 2015, and the results of its operations and its cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related supplementary information and financial statement schedule II, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/s/ KPMG LLP

New York, New York
December 10, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors of Warner Music Group Corp.

We have audited the accompanying consolidated balance sheet of Warner Music Group Corp. as of September 30, 2014, and the related consolidated statements of operations, comprehensive loss, equity (deficit) and cash flows for each of the two years in the period ended September 30, 2014. Our audits also included the Supplementary Information and Financial Statement Schedule II listed in the index at Item 8 for each of the two years in the period ended September 30, 2014. These financial statements, supplementary information and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements, supplementary information and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Warner Music Group Corp. at September 30, 2014, and the consolidated results of its operations and its cash flows for each of the two years in the period ended September 30, 2014, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related Supplementary Information and Financial Statement Schedule II for each of the two years in the period ended September 30, 2014, when considered in relation to the basic financial statements as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

New York, New York

December 11, 2014

Warner Music Group Corp.

Consolidated Balance Sheets

	September 30, 2015	September 30, 2014
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$246	$ 157
Accounts receivable, net of allowances of $56 million and $65 million	349	383
Inventories	42	39
Royalty advances expected to be recouped within one year	130	102
Deferred tax assets	52	46
Prepaid and other current assets	60	55
Total current assets	879	782
Royalty advances expected to be recouped after one year	195	190
Property, plant and equipment, net	220	227
Goodwill	1,632	1,661
Intangible assets subject to amortization, net	2,514	2,884
Intangible assets not subject to amortization	119	120
Other assets	112	90
Total assets	$5,671	$ 5,954
Liabilities and Equity		
Current liabilities:		
Accounts payable	$173	$ 215
Accrued royalties	1,087	1,132
Accrued liabilities	296	243
Accrued interest	58	60
Deferred revenue	206	219
Current portion of long-term debt	13	13
Other current liabilities	24	3
Total current liabilities	1,857	1,885
Long-term debt	2,981	3,017
Deferred tax liabilities, net	352	383
Other noncurrent liabilities	242	279
Total liabilities	$5,432	$ 5,564
Equity:		
Common stock ($0.001 par value; 10,000 shares authorized; 1,055 shares issued and outstanding)	$—	$ —
Additional paid-in capital	1,128	1,128
Accumulated deficit	(740)	(649)
Accumulated other comprehensive loss, net	(167)	(108)
Total Warner Music Group Corp. equity	221	371
Noncontrolling interest	18	19
Total equity	239	390

Total liabilities and equity	$5,671	$ 5,954

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Operations

	Fiscal Year Ended September 30, 2015	Fiscal Year Ended September 30, 2014	Fiscal Year Ended September 30, 2013
	(in millions)		
Revenues	$2,966	$ 3,027	$ 2,871
Costs and expenses:			
Cost of revenue	(1,511)	(1,570)	(1,492)
Selling, general and administrative expenses (a)	(1,073)	(1,172)	(1,097)
Amortization expense	(255)	(266)	(207)
Total costs and expenses	(2,839)	(3,008)	(2,796)
Operating income	127	19	75
Loss on extinguishment of debt	—	(141)	(85)
Interest expense, net	(181)	(203)	(203)
Other expense	(21)	(4)	(12)
Loss before income taxes	(75)	(329)	(225)
Income tax (expense) benefit	(13)	26	31
Net loss	(88)	(303)	(194)
Less: Income attributable to noncontrolling interest	(3)	(5)	(4)
Net loss attributable to Warner Music Group Corp.	$(91)	$ (308)	$ (198)
(a) Includes depreciation expense of:	$(54)	$ (55)	$ (51)

See accompanying notes

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Warner Music Group Corp.

Consolidated Statements of Comprehensive Loss

	Fiscal Year Ended September 30, 2015	Fiscal Year Ended September 30, 2014	Fiscal Year Ended September 30, 2013
	(in millions)		
Net loss	$(88)	$ (303)	$ (194)
Other comprehensive loss, net of tax			
Foreign currency adjustment	(59)	(41)	(3)
Minimum pension liability	—	(6)	2
Deferred losses on derivative financial instruments	—	—	(1)
Other comprehensive loss, net of tax	(59)	(47)	(2)
Total comprehensive loss	(147)	(350)	(196)
Less: Income attributable to noncontrolling interest	(3)	(5)	(4)
Comprehensive loss attributable to Warner Music Group Corp.	$(150)	$ (355)	$ (200)

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Cash Flows

	Fiscal Year Ended September 30, 2015	Fiscal Year Ended September 30, 2014	Fiscal Year Ended September 30, 2013
	(in millions)		
Cash flows from operating activities			
Net loss	$(88)	$ (303)	$ (194)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Loss on extinguishment of debt	—	141	85
Depreciation and amortization	309	321	258
Unrealized gains/losses and remeasurement of foreign denominated loans	28	(39)	(4)
Deferred income taxes	(11)	(55)	(73)
Gain on sale of assets	—	(2)	—
Non-cash interest expense	11	13	13
Non-cash share-based compensation expense	3	8	19
Changes in operating assets and liabilities:			
Accounts receivable	6	72	(15)
Inventories	(6)	(7)	(5)
Royalty advances	(46)	(32)	(1)
Accounts payable and accrued liabilities	(17)	(87)	73
Royalty payables	27	25	6
Accrued interest	(2)	(15)	(14)
Deferred revenue	12	95	14
Other balance sheet changes	(4)	(5)	(3)
Net cash provided by operating activities	222	130	159
Cash flows from investing activities			
Acquisition of music publishing rights, net	(16)	(26)	(37)
Capital expenditures	(63)	(76)	(34)
Investments and acquisitions of businesses, net	(16)	(53)	(737)
Net cash used in investing activities	(95)	(155)	(808)
Cash flows from financing activities			
Proceeds from the Revolving Credit Facility	258	600	136
Repayment of the Revolving Credit Facility	(258)	(600)	(136)
Proceeds from Acquisition Corp. Senior Term Loan Facility	—	—	1,412
Repayment of Acquisition Corp. Senior Term Loan Facility	(13)	(10)	(110)
Proceeds from issuance of Acquisition Corp. 5.625% Senior Secured Notes	—	275	—
Proceeds from issuance of Acquisition Corp. 6.00% Senior Secured Notes	—	—	500
Repayment of Acquisition Corp. 6.00% Senior Secured Notes	—	—	(50)
Proceeds from issuance of Acquisition Corp. 6.25% Senior Secured Notes	—	—	227
Repayment of Acquisition Corp. 6.25% Senior Secured Notes	—	—	(23)
Proceeds from issuance of Acquisition Corp. 6.750% Senior Notes	—	660	—

Repayment of Acquisition Corp. 9.5% Senior Secured Notes	—	—	(1,250)
Repayment of Acquisition Corp. 11.5% Senior Notes	—	(765)	—
Financing costs paid	—	(104)	(129)
Deferred financing costs paid	—	(13)	(62)
Distribution to noncontrolling interest holder	(3)	(3)	(4)
Repayment of capital lease obligations	(3)	(3)	—
Net cash (used in) provided by financing activities	(19)	37	511
Effect of exchange rate changes on cash and equivalents	(19)	(10)	(9)
Net increase (decrease) in cash and equivalents	89	2	(147)
Cash and equivalents at beginning of period	157	155	302
Cash and equivalents at end of period	$246	$ 157	$ 155

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Equity

	Common Stock Shares	Common Stock Value	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. Equity	Noncontrolling Interest	Total Equity
	(in millions, except share amounts)							
Balance at September 30, 2012	1,000	$ —	$ 1,129	$ (143)	$ (59)	$ 927	$ 17	$ 944
Net (loss) income	—	—	—	(198)	—	(198)	4	(194)
Other comprehensive loss, net of tax	—	—	—	—	(2)	(2)	—	(2)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(4)	(4)
Deconsolidation of entity	—	—	(1)	—	—	(1)	—	(1)
Stock dividend	55	—	—	—	—	—	—	—
Balance at September 30, 2013	1,055	$ —	$ 1,128	$ (341)	$ (61)	$ 726	$ 17	$ 743
Net (loss) income	—	—	—	(308)	—	(308)	5	(303)
Other comprehensive loss, net of tax	—	—	—	—	(47)	(47)	—	(47)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(3)	(3)
Balance at September 30, 2014	1,055	$ —	$ 1,128	$ (649)	$ (108)	$ 371	$ 19	$ 390
Net (loss) income	—	—	—	(91)	—	(91)	3	(88)
Other comprehensive loss, net of tax	—	—	—	—	(59)	(59)	—	(59)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(4)	(4)
Balance at September 30, 2015	1,055	$ —	$ 1,128	$ (740)	$ (167)	$ 221	$ 18	$ 239

See accompanying notes

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Warner Music Group Corp.

Notes to Consolidated Audited Financial Statements

1. Description of Business

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

Acquisition of Warner Music Group by Access Industries

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

Acquisition of Parlophone Label Group

On July 1, 2013, the Company completed its acquisition of Parlophone Label Group. See Note 4 for a further discussion.

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

Recorded Music Operations

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

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

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

The Company's Recorded Music distribution operations include Warner-Elektra-Atlantic Corporation ("WEA Corp."), which markets and sells music and video products to retailers and wholesale distributors; Alternative Distribution Alliance ("ADA"), which distributes the products of independent labels to retail and wholesale distributors; various distribution centers and ventures operated internationally; and an 80% interest in Word, which specializes in the distribution of music products in the Christian retail marketplace.

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

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

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

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

Music Publishing Operations

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

The Company’s Music Publishing operations include Warner/Chappell, its global Music Publishing company, headquartered in Los Angeles with operations in over 50 countries through various subsidiaries, affiliates and non-affiliated licensees. The Company owns or controls rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, its award-winning catalog includes over 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. Through consistent and tactical talent investment, Warner/Chappell has developed a broad array of talent across all genres, resulting in Warner/Chappell being awarded ASCAP’s Top Publisher of the Year for Latin Music in 2015, to add to the successes of Top Publisher in each of Pop, Country and Urban categories in 2014. The Company has an extensive production music library collectively branded as Warner/Chappell Production Music.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The Company maintains a 52-53 week fiscal year ending on the last Friday in each reporting period. The fiscal year ended September 30, 2015 ended on September 25, 2015, the fiscal year ended September 30, 2014 ended on September 26, 2014, and the fiscal year ended September 30, 2013 ended on September 27, 2013. For convenience purposes, the Company continues to date its financial statements as of September 30.

Basis of Consolidation

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

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

Reclassifications

Certain reclassifications have been made to the prior fiscal years' consolidated financial statements to conform with the current fiscal-year presentation.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and the accompanying notes. Actual results could differ from those estimates.

Business Combinations

The Company accounts for its business acquisitions under the FASB ASC Topic 805, Business Combinations ("ASC 805") guidance for business combinations. The total cost of acquisitions is allocated to the underlying identifiable net assets based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives and market multiples, among other items.

Cash and Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. The Company includes checks outstanding at year end as a component of accounts payable, instead of a reduction in its cash balance where there is not a right of offset in the related bank accounts.

Accounts Receivable

Credit is extended to customers based upon an evaluation of the customer's financial condition. Accounts receivable are recorded at net realizable value.

Sales Returns and Allowance for Doubtful Accounts

Management's estimate of physical recorded music products that will be returned, and the amount of receivables that will ultimately be collected is an area of judgment affecting reported revenues and operating income. In determining the estimate of physical product sales that will be returned, management analyzes vendor sales of product, historical return trends, current economic conditions, changes in customer demand and commercial acceptance of our products. Based on this information, management reserves a percentage of each dollar of physical product sales that provide the customer with the right of return. The provision for such sales returns is reflected as a reduction in the revenues from the related sale.

Similarly, the Company monitors customer credit risk related to accounts receivable. Significant judgments and estimates are involved in evaluating if such amounts will ultimately be fully collected. On an ongoing basis, the Company tracks customer exposure based on news reports, ratings agency information, reviews of customer financial data and direct dialogue with customers. Counterparties that are determined to be of a higher risk are evaluated to assess whether the payment terms previously granted to them should be modified. The Company also monitors payment levels from customers, and a provision for estimated uncollectible amounts is maintained based on such payment levels, historical experience, management's views on trends in the overall receivable agings and, for larger accounts, analyses of specific risks on a customer specific basis.

Concentration of Credit Risk

Customer credit risk represents the potential for financial loss if a customer is unwilling or unable to meet its agreed upon contractual payment obligations. The Company has no Recorded Music customers that individually represent more than 10% of the Company's consolidated gross accounts receivable. As such, the Company does not believe there is any significant collection risk.

In the Music Publishing business, the Company collects a significant portion of its royalties from copyright collection societies around the world. Collection societies and associations generally are not-for-profit organizations that represent composers, songwriters and music publishers. These organizations seek to protect the rights of their members by licensing, collecting license fees and distributing royalties for the use of the members' works. Accordingly, the Company does not believe there is any significant collection risk from such societies.

Inventories

Inventories consist of DVDs, CDs, Vinyl and related music products. Inventories are stated at the lower of cost or estimated realizable value. Cost is determined using first-in, first-out ("FIFO") and average cost methods, which approximate cost under the FIFO method. Returned goods included in inventory are valued at estimated realizable value, but not in excess of cost.

Derivative and Financial Instruments

The Company accounts for these investments as required by the FASB ASC Topic 815, Derivatives and Hedging ("ASC 815"), which requires that all derivative instruments be recognized on the balance sheet at fair value. ASC 815 also provides that, for derivative instruments that qualify for hedge accounting, changes in the fair value are either (a) offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings or (b) recognized in equity until the hedged item is recognized in earnings, depending on whether the derivative is being used to hedge changes in fair value or cash flows. In addition, the ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

The carrying value of the Company's financial instruments approximates fair value, except for certain differences relating to long-term, fixed-rate debt (see Note 17) and other financial instruments that are not significant. The fair value of financial instruments is generally determined by reference to market values resulting from trading on a national securities exchange or an over-the-counter market. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques.

Property, Plant and Equipment

Property, plant and equipment existing at the date of the Merger or acquired in conjunction with subsequent business combinations are recorded at fair value. All other additions are recorded at historical cost. Depreciation is calculated using the straight-line method based upon the estimated useful lives of depreciable assets as follows: five to seven years for furniture and fixtures, periods of up to five years for computer equipment and periods of up to five years for machinery and equipment. Buildings are depreciated over periods of up to forty years. Leasehold improvements are depreciated over the life of the lease or estimated useful lives of the improvements, whichever period is shorter.

Internal-Use Software Development Costs

As required by FASB ASC Subtopic 350-40, Internal-Use Software (“ASC 350-40”), the Company capitalizes certain external and internal computer software costs incurred during the application development stage. The application development stage generally includes software design and configuration, coding, testing and installation activities. Training and maintenance costs are expensed as incurred, while upgrades and enhancements are capitalized if it is probable that such expenditures will result in additional functionality. Capitalized software costs are depreciated over the estimated useful life of the underlying project on a straight-line basis, generally not exceeding five years and are recorded as a component of depreciation expense.

Accounting for Goodwill and Other Intangible Assets

In accordance with FASB ASC Topic 350, Intangibles-Goodwill and Other (“ASC 350”), the Company accounts for business combinations using the acquisition method of accounting and accordingly, the assets and liabilities of the acquired entities are recorded at their estimated fair values at the acquisition date. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. Pursuant to this guidance, the Company does not amortize the goodwill balance and instead, performs an annual impairment test to assess the fair value of goodwill over its carrying value. Identifiable intangible assets with finite lives are amortized over their useful lives.

Goodwill impairment is determined using a two-step process. The first step involves a comparison of the estimated fair value of the reporting unit to its carrying amount, including goodwill. If the estimated fair value of the reporting unit exceeds its carrying amount, its goodwill is not impaired and the second step of the impairment test is not necessary. If the carrying amount of the reporting unit exceeds its estimated fair value, then the second step of the goodwill impairment test must be performed. The second step of the goodwill impairment test compares the implied fair value of the reporting unit goodwill with its carrying amount to measure the amount of impairment, if any. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment is recognized in an amount equal to that excess. Goodwill is tested annually for impairment during the fourth quarter of each fiscal year as of July 1 or earlier upon the occurrence of certain events or substantive changes in circumstances.

The Company performs an annual impairment test of its indefinite-lived intangible assets as of July 1 of each fiscal year, unless events occur which trigger the need for an earlier impairment test. The impairment test involves a comparison of the estimated fair value of the intangible asset with its carrying value. If the carrying value of the intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess. The estimates of fair value of intangible assets not subject to amortization are determined using a DCF analysis. Common among such an approach is the “relief from royalty” methodology, which is used in estimating the fair value of the Company’s trademarks. Discount rate assumptions are based on an assessment of the risk inherent in the projected future cash flows generated by the respective intangible assets. Also subject to judgment are assumptions about royalty rates, which are based on the estimated rates at which similar trademarks are being licensed in the marketplace.

The impairment tests require management to make assumptions about future conditions impacting the value of the indefinite-lived intangible assets, including projected growth rates, cost of capital, effective tax rates, tax amortization periods, royalty rates, market share and others.

Valuation of Long-Lived Assets

The Company periodically reviews the carrying value of its long-lived assets, including finite lived intangibles, property, plant and equipment and amortizable intangible assets, whenever events or changes in circumstances indicate that the carrying value may not be recoverable or that the lives assigned may no longer be appropriate. To the extent the estimated future cash inflows attributable to the asset, less estimated future cash outflows, are less than the carrying amount, an impairment loss is recognized in an amount equal to the difference between the carrying value of such asset and its fair value. Assets to be disposed of and for which there is a committed plan to dispose of the assets, whether through sale or abandonment, are reported at the lower of carrying value or fair value less costs to sell. If it is determined that events and circumstances warrant a revision to the remaining period of amortization, an asset’s remaining useful life would be changed, and the remaining carrying amount of the asset would be amortized prospectively over that revised remaining useful life.

Foreign Currency Translation

The financial position and operating results of substantially all foreign operations are consolidated using the local currency as the functional currency. Local currency assets and liabilities are translated at the rates of exchange on the balance sheet date, and local currency revenues and expenses are translated at average rates of exchange during the period. Resulting translation gains or losses are included in the accompanying consolidated statements of equity as a component of accumulated other comprehensive loss.

Revenues

Recorded Music

As required by FASB ASC Topic 605, Revenue Recognition ("ASC 605"), the Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred, the sales price is fixed or determinable and collection is probable.

Revenues from the sale of physical Recorded Music products are recognized upon delivery, which occurs once the product has been shipped and title and risk of loss have been transferred. In accordance with industry practice and as is customary in many territories, certain products, such as CDs and DVDs, are sold to customers with the right to return unsold items. Revenues from such sales are generally recognized upon shipment based on gross sales less a provision for future estimated returns. Revenues from the sale of Recorded Music products through digital distribution channels are recognized when the products are sold and related sales accounting reports are delivered by the providers.

Music Publishing

Music Publishing revenues are earned from the receipt of royalties relating to the licensing of rights in musical compositions, and the sale of published sheet music and songbooks. The receipt of royalties principally relates to amounts earned from the public performance of copyrighted material, the mechanical reproduction of copyrighted material on recorded media including digital formats, and the use of copyrighted material in synchronization with visual images. Consistent with industry practice, music publishing royalties, except for synchronization royalties, generally are recognized as revenue when cash is received. Synchronization revenue is recognized as revenue on an accrual basis when all revenue recognition criteria are met in accordance with ASC 605.

Gross Versus Net Revenue Classification

In the normal course of business, the Company acts as an intermediary or agent with respect to certain payments received from third parties. For example, the Company distributes music product on behalf of third-party record labels. As required by FASB ASC Subtopic 605-45, Principal Agent Considerations, such transactions are recorded on a “gross” or “net” basis depending on whether the Company is acting as the “principal” in the transaction or acting as an “agent” in the transaction. The Company serves as the principal in transactions in which it has substantial risks and rewards of ownership and, accordingly, revenues are recorded on a gross basis. For those transactions in which the Company does not have substantial risks and rewards of ownership, the Company is considered an agent and, accordingly, revenues are recorded on a net basis.

To the extent revenues are recorded on a gross basis, any participations and royalties paid to third parties are recorded as expenses so that the net amount (gross revenues less expenses) flows through operating income. To the extent revenues are recorded on a net basis, revenues are reported based on the amounts received, less participations and royalties paid to third parties. In both cases, the impact on operating income is the same whether the Company records the revenues on a gross or net basis.

Based on an evaluation of the individual terms of each contract and whether the Company is acting as principal or agent, the Company generally records revenues from the distribution of recorded music product on behalf of third-party record labels on a gross basis. However, revenues are recorded on a net basis for recorded music compilations distributed by other record companies where the Company has a right to participate in the profits.

Royalty Advances and Royalty Costs

The Company regularly commits to and pays royalty advances to its recording artists and songwriters in respect of future sales. The Company accounts for these advances under the related guidance in FASB ASC Topic 928, Entertainment—Music (“ASC 928”). Under ASC 928, the Company capitalizes as assets certain advances that it believes are recoverable from future royalties to be earned by the recording artist or songwriter. Advances vary in both amount and expected life based on the underlying recording artist or songwriter.

The Company’s decision to capitalize an advance to a recording artist or songwriter as an asset requires significant judgment as to the recoverability of the advance. The recoverability is assessed upon initial commitment of the advance based upon the Company’s forecast of anticipated revenue from the sale of future and existing albums or songs. In determining whether the advance is recoverable, the Company evaluates the current and past popularity of the recording artist or songwriter, the sales history of the recording artist or songwriter, the initial or expected commercial acceptability of the product, the current and past popularity of the genre of music that the product is designed to appeal to, and other relevant factors. Based upon this information, the Company expenses the portion of any advance that it believes is not recoverable. In most cases, advances to recording artists or songwriters without a history of success and evidence of current or past popularity will be expensed immediately. Significant advances are individually assessed for recoverability continuously and at minimum on a quarterly basis. As part of the ongoing assessment of recoverability, the Company monitors the projection of future sales based on the current environment, the recording artist's or songwriter's ability to meet their contractual obligations as well as the Company's intent to support future album releases or songs from the recording artist or songwriter. To the extent that a portion of an outstanding advance is no longer deemed recoverable, that amount will be expensed in the period the determination is made.

Advertising

As required by the FASB ASC Subtopic 720-35, Advertising Costs ("ASC 720-35"), advertising costs, including costs to produce music videos used for promotional purposes, are expensed as incurred. Advertising expense amounted to approximately $88 million, $83 million, and $70 million for the fiscal years ended September 30, 2015, 2014 and 2013, respectively. Deferred advertising costs, which principally relate to advertisements that have been paid for but not been exhibited or services that have not been received, were not material for all periods presented.

Shipping and Handling

The costs associated with shipping goods to customers are recorded as cost of revenues. Shipping and handling charges billed to customers are included in revenues.

Share-Based Compensation

The Company accounts for share-based payments as required by FASB ASC Topic 718, Compensation-Stock Compensation (“ASC 718”). ASC 718 requires all share-based payments to employees, including grants of employee stock options, to be recognized as compensation expense. Under the fair value recognition provision of ASC 718, equity classified share-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the vesting period.

Under the recognition provision of ASC 718, liability classified share-based compensation costs are measured each reporting date until settlement. The Company’s policy is to measure share-based compensation costs using the intrinsic value method instead of fair value as it is not practical to estimate the volatility of its share price. During fiscal year 2013, the Company initiated a long term incentive plan that has liability classification for share-based compensation awards. The plan was in place during fiscal years 2014 and 2015.

Income Taxes

Income taxes are provided using the asset and liability method presented by FASB ASC Topic 740, Income Taxes (“ASC 740”). Under this method, income taxes (i.e., deferred tax assets, deferred tax liabilities, taxes currently payable/refunds receivable and tax expense) are recorded based on amounts refundable or payable in the current fiscal year and include the results of any differences between U.S. GAAP and tax reporting. Deferred income taxes reflect the tax effect of net operating loss, capital loss and general business credit carry forwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statements and income tax purposes, as determined under enacted tax laws and rates. Valuation allowances are established when management determines that it is more likely than not that some portion or the entire deferred tax asset will not be realized. The financial effect of changes in tax laws or rates is accounted for in the period of enactment.

From time to time, the Company engages in transactions in which the tax consequences may be subject to uncertainty. Significant judgment is required in assessing and estimating the tax consequences of these transactions. The Company prepares and files tax returns based on its interpretation of tax laws and regulations. In the normal course of business, the Company’s tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. In determining the Company’s tax provision for financial reporting purposes, the Company establishes a reserve for uncertain tax positions unless such positions are determined to be more likely than not of being sustained upon examination based on their technical merits. There is considerable judgment involved in determining whether positions taken on the Company’s tax returns are more likely than not of being sustained.

New Accounting Pronouncements

During the first quarter of fiscal 2015, the Company adopted Accounting Standards Update (“ASU”) 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax

Credit Carryforward Exists ("ASU 2013-11). ASU 2013-11 requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The adoption of this standard did not have an impact on the Company's financial statements, other than presentation.

During the first quarter of fiscal 2015, the Company adopted ASU 2014-17, Business Combinations (Topic 805): Pushdown Accounting ("ASU 2014-17"). This ASU provides acquired entities the option to apply pushdown accounting in their separate financial statements when an acquirer obtains control of them. ASU 2014-17 was effective upon issuance. This election to apply pushdown accounting is made for each individual change-in-control event. The adoption of this standard did not have an impact on the Company's financial statements.

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

In August 2014, the FASB issued ASU 2014-15, Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern ("ASU 2014-15"). This ASU will explicitly require management to assess an entity's ability to continue as a going concern, and to provide related disclosure when substantial doubt exists. ASU 2014-15 will be effective in the first annual period ending after December 15, 2016, and interim periods thereafter. Earlier adoption is permitted. The Company does not expect the adoption of this guidance to have a material effect on our consolidated financial statements.

In April 2015, the FASB issued ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs ("ASU 2015-03"). This ASU will require that debt issuance costs are presented as a direct deduction to the related debt in the liability section of the balance sheet, rather than presented as an asset. ASU 2015-03 will be effective for annual periods beginning after December 15, 2015, and interim periods within those years. Earlier adoption is permitted. The adoption of this standard is not expected to have a significant impact on the Company's financial statements, other than presentation.

3. Comprehensive Income (Loss)

Comprehensive income (loss), which is reported in the accompanying consolidated statements of equity, consists of net income (loss) and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income (loss). For the Company, the components of other comprehensive loss primarily consist of foreign currency translation losses, minimum pension liabilities, and deferred gains and losses on financial instruments designated as hedges under ASC 815, which include foreign exchange contracts. The following summary sets forth the changes in the components of accumulated other comprehensive loss, net of related taxes:

	Foreign Currency Translation Loss	Minimum Pension Liability Adjustment	Deferred Gains (Losses) On Derivative Financial Instruments	Accumulated Other Comprehensive Loss, net
	(in millions)			
Balance at September 30, 2012	$(54)	$ (6)	$ 1	$ (59)
Other comprehensive loss (a)	(3)	3	—	—
Amounts reclassified from accumulated other comprehensive	—	(1)	(1)	(2)

income				
Balance at September 30, 2013	$(57)	$ (4)	$ —	$ (61)
Other comprehensive loss (a)	(41)	(6)	—	(47)
Amounts reclassified from accumulated other comprehensive income	—	—	—	—
Balance at September 30, 2014	$(98)	$ (10)	$ —	$ (108)
Other comprehensive loss (a)	(59)	—	—	(59)
Amounts reclassified from accumulated other comprehensive income	—	—	—	—
Balance at September 30, 2015	$(157)	$ (10)	$ —	$ (167)

(a) Foreign currency translation adjustments include intra-entity foreign currency transactions that are of a long-term investment nature of $(63) million, $(13) million and $(4) million during the fiscal year ended September 30, 2015, 2014 and 2013, respectively.

4. Acquisition of Parlophone Label Group

On July 1, 2013, the Company completed the acquisition of Parlophone Label Group (“PLG”) from Universal Music for £487 million in an all-cash transaction (the “PLG Acquisition”). The PLG Acquisition was accounted for in accordance with ASC

805, using the acquisition method of accounting. The assets acquired and liabilities assumed in connection with the PLG Acquisition, including identifiable intangible assets, have been measured at their fair value primarily using Level 3 inputs (see Note 17 for additional information on fair value inputs). Determining the fair value of the assets acquired and liabilities assumed requires judgment and involved the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset useful lives and market multiples, among other items. The use of different estimates and judgments could yield materially different results.

In connection with the PLG Acquisition, the Company incurred $5 million in professional fees and integration costs during the fiscal year ended September 30, 2015, $59 million in professional fees and integration costs during the fiscal year ended September 30, 2014 and $43 million in professional fees and integration costs, as well as an $11 million fee under the Management Agreement (defined below), during the fiscal year ended September 30, 2013.

The allocation of the purchase price was completed as of June 30, 2014 and any adjustments to goodwill made up to that date were recorded in the Company’s balance sheet as of June 30, 2014. The table below presents (i) the estimate of the PLG Acquisition consideration as it relates to the acquisition of PLG by the Buyers and (ii) the final allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed on the closing date of July 1, 2013 (in millions):

Purchase Price	£487
Preliminary Working Capital Adjustment	13
Adjusted Purchase Price	£500
Foreign Exchange Rate at July 1, 2013	1.53
Adjusted Purchase Price in U.S. dollars	$765
Fair Value of assets acquired and liabilities assumed:	
Cash	46
Accounts receivable*	83
Other current assets	8
Property, plant and equipment	39
Intangible assets	764
Accounts payable	(83)
Royalties payable	(147)
Other current liabilities	(21)
Deferred revenue	(25)
Deferred tax liabilities*	(140)
Other noncurrent liabilities *	(27)
Fair value of net assets acquired	497
Goodwill recorded *	268
Total purchase price allocated	$765

* Preliminary amounts were adjusted in the first and third quarters of fiscal 2014 based on new information obtained during the measurement period.

On November 21, 2014, the Company received the final completion statement from Universal Music establishing the final purchase price of PLG. The final working capital adjustment of $38 million was determined and paid to Universal Music on December 8, 2014. We accrued for the impact of this in our results for the year ended September 30, 2014 as it represents the culmination of our previously estimated adjusted purchase price for PLG. The final working capital adjustment is reflected in the statement of operations as the measurement period for this acquisition has closed. The impact of this has been offset by the release of various net liability balances as they are settled as a result of the final completion statement.

The excess of the Adjusted Purchase Price, over the fair value of net assets acquired, including the amount assigned to identifiable intangible assets and deferred tax adjustments, has been recorded to goodwill. The goodwill recorded as part of the PLG Acquisition reflects the expected value to be generated from the continuing transition of the music industry and the expected resulting cost savings, cost and revenue synergies to be realized, as well as any intangible assets that do not qualify for separate recognition. The resulting goodwill has been allocated to our Recorded Music reportable segment. The goodwill recognized is not deductible for income tax purposes. Any impairment charges made in future periods associated with goodwill will not be tax deductible.

The components of the intangible assets identified in the table above and the related useful lives, allocated to the Company's Recorded Music reportable segment, are as follows:

	Value (in millions)	Useful Life
Trademark and trade name	$ 17	Indefinite
Catalog	442	13 years
Artist contracts	305	10 years
Total intangible assets	$ 764	

Pro Forma Financial Information (unaudited)

The following unaudited pro forma information has been presented as if the PLG Acquisition occurred on October 1, 2011. This information is based on historical results of operations, adjusted to give effect to pro forma events that are (i) directly attributable to the PLG Acquisition; (ii) factually supportable; and (iii) expected to have a continuing impact on the Company's combined results. Additionally, certain pro forma adjustments have been made to the historical results of PLG in order to (i) convert them to U.S. GAAP; (ii) conform their accounting policies to those applied by the Company; (iii) present them in U.S. dollars; (iv) align accounting periods; (v) eliminate revenue and expenses and related assets and liabilities for international licensing agreements to sell repertoire owned by non-acquired entities that have been terminated as a result of the PLG Acquisition; and (vi) exclude assets not acquired by the Company. The unaudited pro forma results do not reflect the realization of any cost savings as a result of restructuring activities and other cost savings initiatives planned subsequent to the PLG Acquisition or the related estimated restructuring charges contemplated in association with any such expected cost savings. Such charges will be expensed in the appropriate accounting periods. The unaudited pro forma results for the fiscal year ended September 30, 2013 include the licensing income remitted to the repertoire owner by the selling territory, but do not reflect the licensing fee retained and related direct costs incurred by the selling territory. For the fiscal years ended September 30, 2015 and September 30, 2014, where the Company is the selling territory, the licensing fee and direct costs are included in our consolidated results.

The pro forma information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the PLG Acquisition had taken place at the beginning of fiscal 2013.

	September 30, 2013 (in millions)
Revenue	$ 3,131
Operating income	135
Net loss attributable to Warner Music Group Corp.	(154)

Actual results related to PLG included in the Consolidated Statements of Operations for the fiscal year ended September 30, 2015 consist of revenues of $410 million and operating income of $40 million including restructuring charges and integration costs. Actual results related to PLG included in the Consolidated Statements of Operations for the fiscal year ended September 30, 2014 consist of revenues of $322 million and operating loss of $103 million including restructuring charges and integration costs. Actual results related to PLG included in the Consolidated Statements of Operations for the fiscal year ended September 30, 2013 relate to the transition period from July 1, 2013 to September 30, 2013 and consist of revenues of $59 million and operating loss of $32 million including restructuring charges and integration costs.

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5. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	September 30, 2015	September 30, 2014
	(in millions)	
Land	$15	$ 16
Buildings and improvements	98	109
Furniture and fixtures	10	16
Computer hardware and software	203	191
Construction in progress	20	28
Machinery and equipment	11	11
Gross Property, Plant and Equipment	$357	$ 371
Less accumulated depreciation	(137)	(144)
Net Property, Plant and Equipment	$220	$ 227

6. Goodwill and Intangible Assets

Goodwill

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

	Recorded Music	Music Publishing	Total
	(in millions)		
Balance at September 30, 2013	$1,204	$ 464	$1,668
Acquisitions	9	—	9
Dispositions	—	—	—
Other adjustments	(16)	—	(16)
Balance at September 30, 2014	$1,197	$ 464	$1,661
Acquisitions	3	—	3
Dispositions	—	—	—
Other adjustments	(32)	—	(32)
Balance at September 30, 2015	$1,168	$ 464	$1,632

The increase in goodwill during the fiscal year ended September 30, 2015 includes goodwill associated with immaterial acquisitions. The increase in goodwill during the fiscal year ended September 30, 2014 primarily includes an adjustment to preliminary amounts recorded in the prior period as a result of the PLG Acquisition based on new information obtained during the measurement period and goodwill associated with the Gold Typhoon acquisition in July 2014. The other adjustments during both the fiscal year ended September 30, 2015 and 2014 primarily represent foreign currency movements.

The Company performs its annual goodwill impairment test in accordance with ASC 350 during the fourth quarter of each fiscal year as of July 1. The Company may conduct an earlier review if events or circumstances occur that would suggest the carrying value of the Company’s goodwill may not be recoverable. The performance of the annual fiscal 2015 impairment analysis did not result in an impairment of the Company’s goodwill.

Intangible Assets

Intangible assets consist of the following:

	Weighted Average Useful Life	September 30, 2015	September 30, 2014
		(in millions)	
Intangible assets subject to amortization:			
Recorded music catalog	10 years	$992	$ 1,040
Music publishing copyrights	27 years	1,497	1,550
Artist and songwriter contracts	13 years	926	975
Trademarks	7 years	7	7
Total gross intangible asset subject to amortization		3,422	3,572
Accumulated amortization		(908)	(688)
Total net intangible assets subject to amortization		2,514	2,884
Intangible assets not subject to amortization:			
Trademarks and tradenames	Indefinite	119	120
Total net other intangible assets		$2,633	$ 3,004

Amortization

Based on the amount of intangible assets subject to amortization at September 30, 2015, the expected amortization for each of the next five fiscal years and thereafter are as follows:

	Fiscal Years Ended September 30, (in millions)
2016	$ 248
2017	208
2018	208
2019	201
2020	176
Thereafter	1,473
	$ 2,514

The life of all acquired intangible assets is evaluated based on the expected future cash flows associated with the asset. The expected amortization expense above reflects estimated useful lives assigned to the Company’s identifiable, finite-lived intangible assets established in the accounting for the Merger and the PLG Acquisition.

7. Debt

Debt Capitalization

Long-term debt, including the current portion, consists of the following:

	September 30, 2015	September 30, 2014
	(in millions)	
Revolving Credit Facility—Acquisition Corp. (a)	$—	$ —
Senior Term Loan Facility due 2020—Acquisition Corp. (b)	1,282	1,294
5.625% Senior Secured Notes due 2022—Acquisition Corp.	275	275
6.00% Senior Secured Notes due 2021—Acquisition Corp.	450	450
6.25% Senior Secured Notes due 2021—Acquisition Corp. (c)	177	201
6.75% Senior Notes due 2022—Acquisition Corp.	660	660
13.75% Senior Notes due 2019—Holdings	150	150
Total debt	2,994	3,030
Less: current portion	13	13
Total long-term debt	$2,981	$ 3,017

(a) Reflects $150 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $5 million and $11 million at September 30, 2015 and September 30, 2014, respectively. There were no loans outstanding under the Revolving Credit Facility at September 30, 2015 or September 30, 2014.

(b) Principal amount of $1.287 billion and $1.300 billion less unamortized discount of $5 million and $6 million at September 30, 2015 and September 30, 2014, respectively. 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, 2015 and September 30, 2014.

(c) Face amount of €158 million. Above amounts represent the dollar equivalent of such notes at September 30, 2015 and September 30, 2014.

2012 Debt Refinancing

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 6.00% Senior Secured Notes due 2021 (“the Dollar Notes”) and €175 million aggregate principal amount of 6.25% Senior Secured Notes due 2021 (the “Euro Notes” and together with the Dollar Notes, the “Existing Senior Secured Notes”) and entered into new senior secured credit facilities consisting of a $600 million term loan facility (the “Senior Term Loan Facility”) and a $150 million revolving credit facility (the “Revolving Credit Facility” and, together with the Senior Term Loan Facility, the “Senior Credit Facilities”). Acquisition Corp. is the borrower under the Revolving Credit Facility (the “Revolving Borrower”) and under the Senior Term Loan Facility (the “Term Loan Borrower”). The proceeds from the 2012 Refinancing, together with $101 million of the Company’s available cash, were used to pay the total consideration due in connection with the tender offers for all of the Company’s previously outstanding $1.250 billion 9.50% senior secured notes due 2016 (the “Old Secured Notes”) as well as associated fees and expenses and to redeem all of the remaining notes not tendered in the tender offers. The Company also retired its existing $60 million revolving credit facility (the “Old Revolving Credit Facility”) in connection with the 2012 Refinancing, replacing it with the Revolving Credit Facility.

In connection with the 2012 Refinancing, the Company made a redemption payment of $1.377 billion, which included the repayment of the Company's previously outstanding $1.250 billion Old Secured Notes, tender/call premiums of $93 million and consent fees of approximately $34 million. The Company also paid approximately $45 million in accrued interest through the closing date.

The Company recorded a loss on extinguishment of debt of approximately $83 million in connection with the 2012 Refinancing in the fiscal year ended September 30, 2013, which represents the difference between the redemption payment and the carrying value of the debt at the refinancing date, which included the principal value of $1.250 billion, plus unamortized premiums of $55 million, less unamortized debt issuance costs of $11 million related to the Old Secured Notes.

Modification of Senior Term Loan Facility and Drawdown of Incremental Term Loan Facility

On May 9, 2013, Acquisition Corp. prepaid $102.5 million in aggregate principal amount of term loans under the Senior Term Loan Facility (the "Term Loan Repayment"). Also on May 9, 2013, the Term Loan Borrower entered into an amendment to the Senior

Term Loan Facility among the Term Loan Borrower, Holdings, the subsidiaries of the Term Loan Borrower party thereto, Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto, providing for the refinancing of the then outstanding term loan and for a $820 million senior secured incremental term loan facility (the "Incremental Term Loan Facility"). As part of the amendment to the Senior Term Loan Facility, the interest rate, maturity date, and scheduled amortization were changed. On July 1, 2013, Acquisition Corp. drew down the $820 million Incremental Term Loan Facility to fund the PLG Acquisition, pay fees, costs and expenses related to the PLG Acquisition and for general corporate purposes of Acquisition Corp. and its subsidiaries. Initially, the Senior Term Loan Facility provided for term loans thereunder (the "Term Loans") in an amount of up to $1.310 billion.

Debt Redemptions

On June 21, 2013, Acquisition Corp. redeemed 10% of its Senior Secured Notes due 2021, representing repayment of $50 million in aggregate principal amount of its outstanding 6.00% Senior Secured Notes due 2021 and €17.5 million in aggregate principal amount of its outstanding 6.25% Senior Secured Notes due 2021. The Company recorded a loss on extinguishment of debt of approximately $2 million in the fiscal year ended September 30, 2013, which represents the premium paid on early redemption.

2014 Debt Refinancing

On April 9, 2014, the Company completed a refinancing of part of its outstanding debt (the "2014 Refinancing"). In connection with the 2014 Refinancing, the Company issued $275 million in aggregate principal amount of its 5.625% Senior Secured Notes due 2022 (the "New Senior Secured Notes") and $660 million in aggregate principal amount of its 6.750% Senior Notes due 2022 (the "New Unsecured Notes").

In connection with the 2014 Refinancing, the Company used $869 million, to redeem or repurchase the Company's previously outstanding $765 million 11.5% Senior Notes due 2018 and to pay tender/call premiums of $85 million and consent fees of approximately $19 million. The Company also paid approximately $3 million in accrued interest with respect to the notes redeemed or repurchased.

The Company recorded a loss on extinguishment of debt of approximately $141 million in the fiscal year ended September 30, 2014, which represents the difference between the redemption payment and the carrying value of the debt, which included the principal value of $765 million, less unamortized discounts of $13 million and unamortized debt issuance costs of $24 million.

Interest Rates

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

The loans under the Senior Term Loan Facility bear interest at 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"), 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 as its prime rate in effect at its principal office in New York City from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) one-month Term Loan LIBOR, plus 1.00% per annum, plus, in each case, 1.75% per annum. The loans under the Senior Term Loan Facility Credit Agreement are subject to a Term Loan LIBOR "floor" of 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.

Amortization and Maturity of Senior Term Loan Facility

The loans under the Senior Term Loan Facility amortize in equal quarterly installments due December, March, June and September in aggregate annual amounts equal to 1.00% of the original principal amount of the amended Senior Term Loan Facility, or $13 million per year, with the balance payable on maturity date of the Term Loans. The loans outstanding under the Senior Term Loan Facility mature on July 1, 2020.

Maturity of Revolving Credit Facility

On March 25, 2014, Acquisition Corp. received lender consent to an amendment to the credit agreement for its Revolving Credit Facility. The amendment became effective on April 9, 2014 and extended the maturity date of the Revolving Credit Facility to April 1, 2019.

Maturities of Senior Notes and Senior Secured Notes

As of September 30, 2015, there are no scheduled maturities of notes until 2019, when $150 million is scheduled to mature. Thereafter, $1.562 billion is scheduled to mature.

Interest Expense, net

Total interest expense, net, was $181 million, $203 million, and $203 million for the fiscal years ended September 30, 2015, 2014 and 2013, respectively. The weighted-average interest rate of the Company’s total debt was 5.6% at September 30, 2015, 5.6% at September 30, 2014 and 6.9% at September 30, 2013.

8. Income Taxes

The domestic and foreign pretax (loss) income from continuing operations is as follows:

	Fiscal Year Ended September 30, 2015	Fiscal Year Ended September 30, 2014	Fiscal Year Ended September 30, 2013
	(in millions)		
Domestic	$(18)	$ (153)	$ (73)
Foreign	(57)	(176)	(152)
Total	$(75)	$ (329)	$ (225)

Current and deferred income taxes (tax benefits) provided are as follows:

Fiscal Year Ended September 30, 2015	Fiscal Year Ended September 30, 2014	Fiscal Year Ended September 30, 2013

	(in millions)		
Federal:			
Current	$—	$ —	$ —
Deferred	4	(7)	(6)
Foreign:			
Current (a)	40	35	25
Deferred	(33)	(55)	(54)
U.S. State:			
Current	3	(6)	13
Deferred	(1)	7	(9)
Total	$13	$ (26)	$ (31)

(a) Includes withholding taxes of $13 million, $11 million and $9 million for the fiscal year ended September 30, 2015, for the fiscal year ended September 30, 2014, and for the fiscal year ended September 30, 2013, respectively.

The differences between the U.S. federal statutory income tax rate of 35% and income taxes provided are as follows:

	Fiscal Year Ended September 30, 2015	Fiscal Year Ended September 30, 2014	Fiscal Year Ended September 30, 2013
	(in millions)		
Taxes on income at the U.S. federal statutory rate	$(26)	$ (115)	$ (79)
U.S. state and local taxes	2	1	4
Foreign income taxed at different rates, including withholding taxes	11	(15)	15
Increase in valuation allowance	34	101	36
Release of valuation allowance	(5)	(3)	(1)
Change in tax rates	(2)	1	(20)
Nondeductible transaction costs	—	—	13
Other	(1)	4	1
Total income tax (benefit) expense	$13	$ (26)	$ (31)

For the fiscal year ended September 30, 2015 and for the fiscal year ended September 30, 2014, the Company incurred losses in the U.S. and certain foreign territories and has offset the tax benefit associated with these losses with a valuation allowance as the Company has determined that it is more likely than not that these losses will not be utilized. The balance of the U.S. tax attributes remaining at September 30, 2015 continues to be offset by a full valuation allowance as the Company has determined that it is more likely than not that these attributes will not be realized. Significant components of the Company’s net deferred tax assets/(liabilities) are summarized below:

	September 30, 2015	September 30, 2014
	(in millions)	
Deferred tax assets:		
Allowances and reserves	$40	$ 43
Employee benefits and compensation	47	43
Other accruals	76	72
Tax attribute carry forwards	552	619
Other	2	3
Total deferred tax assets	717	780
Valuation allowance	(344)	(394)
Net deferred tax assets	373	386
Deferred tax liabilities:		
Depreciation, amortization and artist advances	(23)	(9)
Intangible assets	(650)	(714)

Total deferred tax liabilities	(673)	(723)
Net deferred tax liabilities	$(300)	$ (337)

During the fiscal year ended September 30, 2015, the Company's tax attribute decreased with a corresponding decrease to the valuation allowance primarily in connection with an inter-company transfer.

At September 30, 2015, the Company has U.S. federal tax net operating loss carry-forwards of $662 million, which will begin to expire in fiscal year 2024. The Company also has tax net operating loss carry-forwards, with no expiration date, in the United Kingdom, France and Spain of $165 million, $132 million and $49 million, respectively, and other tax net operating loss carry forwards in state, local and foreign jurisdictions that expire in various periods. In addition, the Company has foreign tax credit carry-forwards for U.S. tax purposes of $158 million. During the year ended September 30, 2014 the Company converted $20 million of expiring foreign tax credits to deductions. The remaining foreign tax credits will begin to expire in 2016.

U.S. income and foreign withholding taxes have not been recorded on indefinitely reinvested earnings of certain foreign subsidiaries of approximately $213 million at September 30, 2015. As such, no deferred income taxes have been provided for these undistributed earnings. Should these earnings be distributed, foreign tax credits and net operating losses may be available to reduce the additional federal income tax that would be payable. However, availability of these foreign tax credits is subject to limitations which make it impracticable to estimate the amount of the ultimate tax liability, if any, on these accumulated foreign earnings.

The Company classifies interest and penalties related to uncertain tax positions as a component of income tax expense. As of September 30, 2015 and September 30, 2014, the Company had accrued $3 million and $4 million of interest and penalties, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, including interest and penalties, are as follows (in millions):

Balance at September 30, 2012	$14
Additions for current year tax positions	5
Additions for prior year tax positions	11
Subtractions for prior year tax positions	—
Balance at September 30, 2013	$30
Additions for current year tax positions	10
Additions for prior year tax positions	1
Subtractions for prior year tax positions	(14)
Balance at September 30, 2014	$27
Additions for current year tax positions	8
Additions for prior year tax positions	9
Subtractions for prior year tax positions	(9)
Balance at September 30, 2015	$35

Included in the total unrecognized tax benefits at September 30, 2015 and 2014 are $35 million and $27 million, respectively, that if recognized, would favorably affect the effective income tax rate. The Company has determined that is reasonably possible that its existing reserve for uncertain tax positions as of September 30, 2015 could decrease by up to approximately $8 million related to various ongoing audits and settlement discussions in various foreign jurisdictions.

The Company and its subsidiaries file income tax returns in the U.S. and various foreign jurisdictions. The Company has completed tax audits in the U.S. for tax years ended through September 30, 2008, in the U.K. for the tax years ending through September 30, 2011, in Canada for tax years ended through September 30, 2006, in Germany for the tax years ending through September 30, 2009 and in Japan for the tax years ending through September 30, 2007. The Company is at various stages in the tax audit process in certain foreign and local jurisdictions.

9. Employee Benefit Plans

Certain international employees, such as those in Germany and Japan, participate in locally sponsored defined benefit plans, which are not considered to be material either individually or in the aggregate and have a combined projected benefit obligation of approximately $69 million and $75 million as of September 30, 2015 and 2014, respectively. Pension benefits under the plans are based on formulas that reflect the employees' years of service and compensation levels during their employment period. The Company had unfunded pension liabilities relating to these plans of approximately $45 million and $50 million recorded in its balance sheets as of September 30, 2015 and 2014, respectively. The Company uses a September 30 measurement date for its plans. For the fiscal year ended

September 30, 2015, September 30, 2014, and September 30, 2013, pension expense amounted to $4 million, $4 million, and $4 million, respectively.

Certain employees also participate in defined contribution plans. The Company's contributions to the defined contribution plans are based upon a percentage of the employees' elected contributions. The Company's defined contribution plan expense amounted to approximately $4 million for the fiscal year ended September 30, 2015, $5 million for the fiscal year ended September 30, 2014, and $4 million for the fiscal year ended September 30, 2013.

10. Restructuring

In conjunction with the PLG Acquisition, the Company undertook a plan to achieve cost savings (the "Restructuring Plan"), primarily through headcount reductions. The Restructuring Plan was approved by the CEO prior to the close of the PLG Acquisition. As of September 30, 2015, the Restructuring Plan was complete and resulted in approximately $74 million in restructuring charges, which were made up of employee-related costs of $67 million, real estate costs of $6 million and other costs of $1 million. Total restructuring costs of $2 million were incurred in the fiscal year ended September 30, 2015 with respect to these actions, which consist of $2 million of real estate costs. Total restructuring costs of $50 million were incurred in the fiscal year ended September 30, 2014 with respect to these actions, which consisted of $45 million of employee-related costs, $4 million of real estate costs and $1 million of other costs. Total cash payments of $72 million to date have been made under the Restructuring Plan. Employee-related costs include all cash compensation and other employee benefits paid to terminated employees. Real estate costs include costs that will continue to be incurred without economic benefit to us, such as, among others, 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 wire a new facility.

Total restructuring activity is as follows:

	Employee-related Costs	Real Estate Costs	Other	Total
	(in millions)			
Balance at September 30, 2013	$ 10	$ —	$ —	$ 10
Restructuring expense	45	4	1	50
Cash payments	(43)	(3)	(1)	(47)
Balance at September 30, 2014	$ 12	$ 1	$ —	$ 13
Restructuring expense	—	2	—	2
Cash payments	(10)	(3)	—	(13)
Balance at September 30, 2015	$ 2	$ —	$ —	$ 2

The restructuring accrual is recorded in other current liabilities on the consolidated balance sheet. These balances reflect estimated future cash outlays.

A summary of the charges in the consolidated statements of operations resulting from the Restructuring Plan is shown below:

	Fiscal Year Ended September 30, 2015	Fiscal Year Ended September 30, 2014
	(in millions)	
Selling, general and administrative expenses	$ 2	$ 50
Total restructuring expense	$ 2	$ 50

All of the above expenses were recorded in the Recorded Music reportable segment.

11. Share-Based Compensation Plans

Effective January 1, 2013, eligible individuals were invited to participate in the Senior Management Free Cash Flow Plan (the "Plan"). Eligible individuals include any employee, consultant or officer of the Company or any of its affiliates, who is selected by the Company's Compensation Committee to participate in the Plan. Under the Plan, participants are allocated a specific portion of the Company's free cash flow to use to purchase the equivalent of Company stock through the acquisition of deferred equity units. Participants also receive a grant of profit interests in a purposely established LLC holding company (the "LLC") that represent an economic entitlement to future appreciation over an equivalent number of shares of Company stock ("matching units"). The Company's Board of Directors authorized the issuance of up to 82.1918 shares of the Company's common stock pursuant to the Plan, 41.0959 in respect of deferred equity units and 41.0959 in respect of matching units. The LLC currently owns 55 issued and outstanding shares. Each deferred equity unit is equivalent to 1/10,000 of a share of Company stock. The Company will allocate units to active participants each Plan year at the time that annual free cash flow bonuses for such Plan year are determined and may grant unallocated units under the Plan to certain members of current or future management. At the time that annual free cash flow bonuses for such Plan year are determined, a participant shall be credited a number of deferred equity units based on their respective allocation divided by $107.13 (the grant date intrinsic value) and an equal number of the related matching units will be allocated. The redemption price of the deferred equity units will equal the fair market value of a fractional share of the Company's stock on the date of the settlement and the redemption price for the matching units will equal the excess, if any, of the then fair market value of one Company fractional share over the grant date intrinsic value of one fractional share.

The Company accounts for share-based payments as required by ASC 718. ASC 718 requires all share-based payments to employees to be recognized as compensation expense. Under the recognition provision of ASC 718, liability classified share-based compensation costs are measured each reporting date until settlement. The Company's policy is to measure share-based compensation costs to employees using the intrinsic value method instead of fair value as it is not practical to estimate the volatility of its share price.

In accordance with ASC 718, the Company measures share-based compensation costs to non-employees at fair value under ASC 820, which does not allow for use of the intrinsic method.

For accounting purposes, the grant date was established at the point the Company and the participant reached a mutual understanding of the key terms and conditions, in this case the date at which the participant accepted the invitation to participate in the Plan. For accounting purposes, deferred equity units are deemed to generally vest between one and seven years and matching equity units granted under the Plan are deemed to vest two years after the allocation to the participant's account. All deferred and matching equity units will be settled in three installments in December 2018, 2019, and 2020. The deferred units will be settled at the participant's election for cash equal to the fair market value or one fractional company share. The matching units will be settled for cash equal to the redemption price. In December 2020, all outstanding units become mandatorily redeemable at the then redemption price. Due to this mandatory redemption clause, the Company has classified the awards under the Plan as liability awards. Dividend distributions, if any, are also paid out on vested deferred equity units and are calculated on the same basis as the Company's common shares. The Company has applied a graded (tranche-by-tranche) attribution method and expenses share-based compensation on an accelerated basis over the vesting period of the share award.

The following is a summary of the Company's share awards:

	Deferred Equity Units	Matching Equity Units	Deferred Equity Units Weighted-Average Fair Value	Matching Equity Units Weighted-Average Intrinsic Value	Deferred Equity Units Weighted-Average Grant-Date Intrinsic Value	Matching Equity Units Weighted-Average Grant-Date Intrinsic Value
Unvested units at September 30, 2013	24	24	$ 134.62	$ 27.49	$ 107.13	$ —
Granted	2	2	134.62	—	107.13	—
Vested	(5)	—	134.62	27.49	107.13	—
Forfeited	(2)	(2)	134.62	27.49	107.13	—
Unvested units at September 30, 2014	19	24	$ 132.92	$ 25.79	$ 107.13	$ —
Granted	3	3	132.92	—	107.13	—
Vested	(2)	—	132.92	25.79	107.13	—
Forfeited	(2)	(2)	132.92	25.79	107.13	—
Unvested units at September 30, 2015	18	25	$ 135.00	$ 27.87	$ 107.13	$ —

The weighted-average grant date intrinsic value of deferred equity unit awards for the fiscal year ended September 30, 2015 was $107.13. The fair value of these deferred equity units at September 30, 2015 was $135.00. The weighted-average grant date intrinsic value of deferred equity unit awards for the period ended September 30, 2014 was $107.13. The fair value of these deferred equity units at September 30, 2014 was $132.92. The weighted-average grant date intrinsic value of deferred equity unit awards for the period ended September 30, 2013 was $107.13. The fair value of these deferred equity units at September 30, 2013 was $134.62.

Compensation Expense

The Company recognized non-cash share-based compensation expense of $3 million for the fiscal year ended September 30, 2015. Of the $3 million, $1 million related to awards for employees and $2 million related to awards for non-employees for the fiscal year ended September 30, 2015. The Company recognized non-cash share-based compensation of $8 million for the fiscal year ended September 30, 2014. Of the $8 million, $5 million related to awards for employees and $3 million related to awards for non-employees for the fiscal year ended September 30, 2014. The Company recognized non-cash share-based compensation of $19 million for the fiscal year ended September 30, 2013. Of the $19 million, $12 million related to awards for employees and $7 million related to awards for non-employees for the fiscal year ended September 30, 2013.

In addition, at September 30, 2015, September 30, 2014 and September 30, 2013, the Company had approximately $7 million, $12 million and $20 million, respectively, of unrecognized compensation costs related to its unvested share awards. As of September 30, 2015, the remaining weighted average period over which total compensation related to unvested awards is expected to be recognized is 2 years.

12. Related Party Transactions

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 equal to approximately $9 million based on a formula contained in the agreement and reimburse Access for certain expenses incurred performing services under the agreement. The annual fee is payable quarterly. The Company also paid Access an $11 million transaction fee related to the PLG Acquisition in fiscal 2013. The Company and Holdings agreed to indemnify Access and certain of its affiliates against all liabilities arising out of performance of the Management Agreement.

Such costs incurred by the Company were approximately $9 million, $8 million and $19 million for the fiscal years ended September 30, 2015, 2014 and 2013, respectively, which includes the annual fee, an $11 million transaction fee related to the PLG Acquisition in the fiscal year ended September 30, 2013, but excludes $2 million of expenses reimbursed related to certain consultants with full time roles at the Company for each of the fiscal years ended September 30, 2015, 2014 and 2013. Such amounts have been included as a component of selling, general and administrative expense in the accompanying statements of operations.

Lease Arrangements with Related Party

On July 29, 2014, AI Wrights Holdings Limited, an affiliate of Access, entered into a lease and related agreements with Warner/Chappell Music Limited and WMG Acquisition (UK) Limited, subsidiaries of the Company, for the lease of 27 Wrights Lane, Kensington, London. The Company had been the tenant of the building, which Access acquired during the year. Subsequent to the change in ownership, the Company entered into the new lease arrangements. Pursuant to the agreements, on January 1, 2015, the rent in the lease was increased to £3,460,250 per year, the term was extended five years and the Company received certain rights to extend the term for an additional five years following a market rate rent review.

On September 27, 2011, Access Industries (UK) Limited, an affiliate of Access, entered into a License to Occupy on a Short Term Basis agreement with Warner Music UK Limited, one of the Company's subsidiaries, for the license of office space in the Company's building at 28 Kensington Church Street, Kensington, London. The license fee of £15,839 per month (exclusive of VAT) was based on the per foot lease costs to the Company. For the fiscal years ended September 30, 2014, 2013 and 2012, an immaterial amount was recorded as a reduction of rent expense in the accompanying statements of operations. The license agreement was terminated on October 13, 2014.

On August 13, 2015, a subsidiary of the Company, Warner Music Inc., entered into a license agreement with Access Industries, Inc., an affiliate of Access, for the use of office space in our corporate headquarters at 1633 Broadway, New York, New York. The license fee of $2,775 per month, plus an IT support fee of $1,000 per month, was based on the per foot lease costs to the Company of its headquarters space, which represented market terms. For the fiscal year ended September 30, 2015, an immaterial amount was recorded as rental income. The space is occupied by The Blavatnik Archive, which is dedicated to the discovery and preservation of historically distinctive and visually compelling artifacts, images and stories that contribute to the study of 20th century Jewish, WWI and WWII history.

Deezer

Access owns a minority equity interest in Deezer S.A., which was formerly known as Odyssey Music Group ("Odyssey"), a French company that controls and operates a digital music streaming service, formerly through Odyssey's subsidiary, Blogmusik SAS ("Blogmusik"), under the name Deezer ("Deezer"), and is represented on Deezer S.A.'s Board of Directors. On September 4, 2015, Blogmusik, as absorbed company, was merged into Odyssey, an absorbing company. Immediately following such merger, Odyssey was renamed "Deezer S.A." Subsidiaries of the Company, Warner Music Inc. and WEA International Inc. have been a party to license arrangements with Deezer since 2008 (Warner Music Inc. was added as a party to the license in 2014 in respect of the U.S.), which provide for the use of the Company's sound recording content on Deezer's ad-supported and subscription streaming services worldwide (excluding Japan) in exchange for fees paid by Deezer. Warner Music Inc. and WEA International Inc. have also authorized Deezer to include Warner content in Deezer's streaming services where such services are offered as a bundle with third-party services or products (e.g., telco services or hardware products), for which Deezer is also required to make payments to Warner Music Inc. and WEA International Inc. Deezer paid to WEA International Inc. an aggregate amount of approximately $25 million and $21 million in connection with the foregoing arrangements during the fiscal year ended September 30, 2015 and 2014, respectively. In addition, in connection with these arrangements, the Company was issued, and currently holds, warrants to purchase shares of Deezer S.A. representing a small minority interest in Deezer S.A.

Equity Investment

In fiscal 2014, the Company made an investment in a company in which Access was a minority owner, which was subsequently sold during fiscal 2014. As a result of the sale transaction, the Company recognized a gain of $2 million.

Southside Earn-Out

In December 2010, the Company acquired Southside Independent Music Publishing, LLC and contractually agreed to provide contingent earn-out payments to Cameron Strang, the former owner of Southside and currently the Chairman and CEO of Warner Bros. Records, the Chairman of Warner/Chappell Music and one of the Company's directors, provided specified performance goals were achieved. The goals relate to achievement of specified NPS ("net publishers share," a measure of earnings) requirements by the acquired assets during the five-year period following closing of the acquisition. The Company had a $6 million liability recorded as of September 30, 2013 based on the fair value of the expected earn-out payments. The Company concluded that it was no longer likely that the specified performance goals would be achieved. As such, the liability was reversed, and no liability was recorded on the balance sheet at September 30, 2015 or September 30, 2014. The Company was also required to pay Mr. Strang certain monies that might be received and applied by the Company in recoupment of advance payments made by Southside prior to the acquisition in an amount not to exceed approximately $0.8 million, all of which has been paid since the acquisition.

Record Industry

In February 2015, WEA and Record Industry entered into an agreement for vinyl record manufacturing. In fiscal year 2015, WEA paid to Record Industry an aggregate amount of $4 million in connection with the foregoing arrangements. Mr. Mohaupt, currently one of the Company's directors, owns a minority interest in Record Industry.

13. Commitments and Contingencies

Leases

The Company occupies various facilities and uses certain equipment under both capital and operating leases. Net rent expense was approximately $66 million, $82 million and $61 million for the fiscal years ended September 30, 2015, 2014 and 2013, respectively.

At September 30, 2015, future minimum payments under non-cancelable operating leases (net of sublease income) are as follows:

Years	Operating Leases
	(in millions)
2016	$ 57
2017	49
2018	42

2019		40
2020		34
Thereafter		210
Total	$	432

The future minimum payments reflect the amounts owed under lease arrangements and do not include any fair market value adjustments that may have been recorded as a result of the Merger.

Talent Advances

The Company routinely enters into long-term commitments with artists, songwriters and publishers for the future delivery of music product. Such commitments generally become due only upon delivery and Company acceptance of albums from the artists or future musical compositions by songwriters and publishers. Additionally, such commitments are typically cancelable at the Company’s discretion, generally without penalty. Based on contractual obligations and the Company’s expected release schedule, aggregate firm commitments to such talent approximated $318 million and $190 million as of September 30, 2015 and September 30, 2014, respectively.

Other

Other off-balance sheet, firm commitments, which primarily include minimum funding commitments to investees, amounted to approximately $5 million and $5 million at September 30, 2015 and September 30, 2014, respectively.

Litigation

Pricing of Digital Music Downloads

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

Upon remand to the District Court, all defendants, including the Company, filed a renewed motion to dismiss challenging, among other things, plaintiffs' state law claims and standing to bring certain claims. The renewed motion was based mainly on arguments made in defendants' original motion to dismiss, but not addressed by the District Court. On July 18, 2011, the District Court granted defendants' motion in part, and denied it in part. Notably, all claims on behalf of the CD-purchaser class were dismissed with prejudice. However, a wide variety of state and federal claims remain for the class of Internet download purchasers. Plaintiffs filed an operative consolidated amended complaint on August 31, 2011. Pursuant to the terms of an August 15, 2011 stipulation and order, the case is currently in discovery. Disputes regarding the scope of discovery are ongoing. Plaintiffs filed a Class Certification brief on March 14, 2014 and an amended Class Certification brief on October 12, 2015. The Company's opposition to the amended brief is due February 9, 2016 and the plaintiffs' reply in support of the brief is due June 8, 2016. The Company filed its answer to the fourth amended complaint on October 9, 2015. The Company intends to defend against these lawsuits vigorously, but is unable to predict the outcome of these suits. Regardless of the merits of the claims, this and any related litigation could continue to be costly, and divert the time and resources of management. The potential outcomes of these claims that are reasonably possible cannot be determined at this time and an estimate of the reasonably possible loss or range of loss cannot presently be made.

Other Matters

In addition to the matters discussed above, the Company is involved in various litigation and regulatory proceedings arising in the normal course of business. Where it is determined, in consultation with counsel based on litigation and settlement risks, that a loss is probable and estimable in a given matter, the Company establishes an accrual. In 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, the Company cannot predict with certainty the outcome of any litigation or the potential for future litigation. As such, the Company continuously monitors these proceedings as they develop and adjusts any accrual or disclosure as needed. Regardless of the outcome, litigation could have an adverse impact on the Company, including the Company's brand value, because of defense costs, diversion of management resources and other factors and it could have a material effect on the Company's results of operations for a given reporting period.

14. Derivative Financial Instruments

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

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

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

The fair value of foreign currency forward exchange contracts is determined by using observable market transactions of spot and forward rates (i.e., Level 2 inputs) which is discussed further in Note 17. Additionally, netting provisions are provided for in existing International Swap and Derivative Association Inc. agreements in situations where the Company executes multiple contracts with the same counterparty. As a result, net assets or liabilities resulting from foreign exchange derivatives subject to these netting agreements are classified within other current assets or other current liabilities in the Company’s consolidated balance sheets.

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

As of September 30, 2015, the Company had no outstanding hedge contracts and no deferred gains or losses in comprehensive loss related to foreign exchange hedging. As of September 30, 2014, the Company had outstanding hedge contracts for the sale of $7 million of foreign currencies at fixed rates, and the company had less than $1 million of deferred gains or losses in comprehensive loss related to foreign exchange hedging.

15. Segment Information

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

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

	Recorded Music	Music Publishing	Corporate expenses and eliminations	Total
	(in millions)			
2015				
Revenues	$2,501	$ 482	$ (17)	$2,966
OIBDA	379	146	(89)	436
Depreciation of property, plant and equipment	(36)	(6)	(12)	(54)
Amortization of intangible assets	(192)	(63)	—	(255)
Operating income (loss)	151	77	(101)	127
Total assets	2,868	2,408	395	5,671
Capital expenditures	19	7	37	63
2014				
Revenues	$2,526	$ 517	$ (16)	$3,027
OIBDA	267	166	(93)	340
Depreciation of property, plant and equipment	(35)	(7)	(13)	(55)
Amortization of intangible assets	(201)	(65)	—	(266)
Operating income (loss)	31	94	(106)	19
Total assets	3,273	2,393	288	5,954
Capital expenditures	27	8	41	76
2013				
Revenues	$2,389	$ 503	$ (21)	$2,871
OIBDA	270	148	(85)	333
Depreciation of property, plant and equipment	(32)	(6)	(13)	(51)
Amortization of intangible assets	(146)	(61)	—	(207)
Operating income (loss)	92	81	(98)	75
Capital expenditures	12	3	19	34

Revenues relating to operations in different geographical areas are set forth below for the fiscal years ended September 30, 2015, 2014 and 2013. Total assets relating to operations in different geographical areas are set forth below as of September 30, 2015 and September 30, 2014.

	2015		2014		2013
	Revenue	Long-lived Assets	Revenue	Long-lived Assets	Revenue
	(in millions)				
United States	$1,171	$ 149	$1,141	$ 148	$ 1,161

United Kingdom	477	30	467	30	383
All other territories	1,318	41	1,419	49	1,327
Total	$2,966	$ 220	$3,027	$ 227	$ 2,871

Customer Concentration

In the fiscal years ended September 30, 2015, 2014 and 2013, one customer represented 13%, 16% and 18% of total revenues, respectively. This customer's revenues are included in the Recorded Music segment.

16. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $171 million, $204 million and $206 million during the fiscal years ended September 30, 2015, 2014 and 2013, respectively. The Company paid approximately $25 million, $22 million and $26 million of foreign income and withholding taxes, net of refunds, for the fiscal years ended September 30, 2015, 2014 and 2013, respectively.

17. Fair Value Measurements

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

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

Level 1—inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

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

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

In accordance with the fair value hierarchy, described above, the following table shows the fair value of the Company's financial instruments that are required to be measured at fair value as of September 30, 2015 and September 30, 2014.

	Fair Value Measurements as of September 30, 2015			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Liabilities:				
Contractual Obligations (a)	—	—	(1)	(1)
Other Non-Current Liabilities:				
Contractual Obligations (a)	—	—	—	—
Total	$ —	$ —	$ (1)	$ (1)

	Fair Value Measurements as of September 30, 2014			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Liabilities:				
Contractual Obligations (a)	—	—	(2)	(2)
Other Non-Current Liabilities:				
Contractual Obligations (a)	—	—	(1)	(1)
Total	$ —	$ —	$ (3)	$ (3)

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

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

	Total (in millions)
Balance at September 30, 2014	$ (3)
Additions	—
Reductions	—
Payments	2
Balance at September 30, 2015	$ (1)

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

Fair Value of Debt

Based on the level of interest rates prevailing at September 30, 2015, the fair value of the Company's debt was $2.976 billion. Based on the level of interest rates prevailing at September 30, 2014, the fair value of the Company's debt was $3.026 billion. The fair value of the Company's debt instruments are determined using quoted market prices from less active markets or by using quoted market prices for instruments with identical terms and maturities; both approaches are considered a Level 2 measurement.

WARNER MUSIC GROUP CORP.

2015 QUARTERLY FINANCIAL INFORMATION

(unaudited)

The following table sets forth the quarterly information for Warner Music Group Corp.

	Three months ended			
	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014
	(in millions)			
Revenues	$750	$710	$677	$ 829
Costs and expenses:				
Cost of revenue	(375)	(373)	(318)	(445)
Selling, general and administrative expenses (a)	(274)	(251)	(252)	(296)
Amortization expense	(64)	(63)	(63)	(65)
Total costs and expenses	(713)	(687)	(633)	(806)
Operating income	37	23	44	23
Interest expense, net	(45)	(45)	(45)	(46)
Other income (expense)	(9)	(17)	14	(9)
Loss (income) before income taxes	(17)	(39)	13	(32)
Income tax (expense) benefit	(6)	(4)	6	(9)
Net (loss) income	(23)	(43)	19	(41)
Less: income attributable to noncontrolling interest	—	(1)	(1)	(1)
Net (loss) income attributable to Warner Music Group Corp.	$(23)	$(44)	$18	$ (42)
(a) Includes depreciation expense of:	$(12)	$(14)	$(14)	$ (14)

Quarterly operating results can be disproportionately affected by a particularly strong or weak quarter. Therefore, these quarterly operating results are not necessarily indicative of the results that may be expected for the full fiscal year.

WARNER MUSIC GROUP CORP.

2014 QUARTERLY FINANCIAL INFORMATION

(unaudited)

The following table sets forth the quarterly information for Warner Music Group Corp.

	Three months ended September 30, 2014	June 30, 2014	March 31, 2014	December 31, 2013
	(in millions)			
Revenues	$771	$788	$653	$ 815
Costs and expenses:				
Cost of revenue	(393)	(417)	(319)	(441)
Selling, general and administrative expenses (a)	(287)	(319)	(273)	(293)
Amortization expense	(67)	(67)	(66)	(66)
Total costs and expenses	(747)	(803)	(658)	(800)
Operating income (loss)	24	(15)	(5)	15
Loss on extinguishment of debt	—	(141)	—	—
Interest expense, net	(46)	(48)	(54)	(55)
Other (expense) income	(1)	4	(3)	(4)
Loss before income taxes	(23)	(200)	(62)	(44)
Income tax (expense) benefit	(1)	16	3	8
Net loss	(24)	(184)	(59)	(36)
Less: income attributable to noncontrolling interest	(2)	(1)	(1)	(1)
Net loss attributable to Warner Music Group Corp.	$(26)	$(185)	$(60)	$ (37)
(a) Includes depreciation expense of:	$(16)	$(14)	$(13)	$ (12)

Quarterly operating results can be disproportionately affected by a particularly strong or weak quarter. Therefore, these quarterly operating results are not necessarily indicative of the results that may be expected for the full fiscal year.

WARNER MUSIC GROUP CORP.

Supplementary Information

Consolidating Financial Statements

The Company is the direct parent of Holdings, which is the direct parent of Acquisition Corp. Holdings has issued and outstanding the 13.75% Senior Notes due 2019 (the “Holdings Notes”). In addition, Acquisition Corp. has issued and outstanding the 5.625% Senior Secured Notes due 2022, the 6.00% Senior Secured Notes due 2021, the 6.25% Senior Secured Notes due 2021, and the 6.75% Senior Notes due 2022 (together, the “Acquisition Corp. Notes”).

The Holdings Notes are guaranteed by the Company. These guarantees are full, unconditional, joint and several. The following condensed consolidating financial statements are presented for the information of the holders of the Holdings Notes and present the results of operations, financial position and cash flows of (i) the Company, which is the guarantor of the Holdings Notes, (ii) Holdings, which is the issuer of the Holdings Notes, (iii) the subsidiaries of Holdings (Acquisition Corp. is the only direct subsidiary of Holdings) and (iv) the eliminations necessary to arrive at the information for the Company on a consolidated basis. Investments in consolidated or combined subsidiaries are presented under the equity method of accounting.

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

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

Consolidating Balance Sheet

September 30, 2015

	WMG Acquisition Corp. (issuer) (in millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Assets:									
Current assets:									
Cash and equivalents	$—	$ 73	$ 173	$ —	$ 246	$ —	$—	$ —	$ 246
Accounts receivable, net	—	170	179	—	349	—	—	—	349
Inventories	—	15	27	—	42	—	—	—	42
Royalty advances expected to be recouped within one year	—	80	50	—	130	—	—	—	130
Deferred tax assets	—	32	20	—	52	—	—	—	52
Prepaid and other current assets	5	9	46	—	60	—	—	—	60
Total current assets	5	379	495	—	879	—	—	—	879
Due (to) from parent companies	863	(174)	(689)	—	—	—	—	—	—
Investments in and advances to (from) consolidated subsidiaries	2,365	1,187	—	(3,552)	—	376	221	(597)	—
Royalty advances expected to be recouped after one year	—	120	75	—	195	—	—	—	195
Property, plant and equipment, net	—	145	75	—	220	—	—	—	220
Goodwill	—	1,379	253	—	1,632	—	—	—	1,632
Intangible assets subject to amortization, net	—	1,271	1,243	—	2,514	—	—	—	2,514
Intangible assets not subject to amortization	—	71	48	—	119	—	—	—	119
Other assets	39	53	15	—	107	5	—	—	112
Total assets	$3,272	$ 4,431	$ 1,515	$ (3,552)	$ 5,666	$ 381	$ 221	$ (597)	$ 5,671
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$—	$ 79	$ 94	$ —	$ 173	$ —	$—	$ —	$ 173
Accrued royalties	—	513	574	—	1,087	—	—	—	1,087
Accrued liabilities	1	269	26	—	296	—	—	—	296
Accrued interest	48	—	—	—	48	10	—	—	58
Deferred revenue	—	140	66	—	206	—	—	—	206
	13	—	—	—	13	—	—	—	13

Current portion of long-term debt									
Other current liabilities	—	7	18	(1)	24	—	—	—	24
Total current liabilities	62	1,008	778	(1)	1,847	10	—	—	1,857
Long-term debt	2,831	—	—	—	2,831	150	—	—	2,981
Deferred tax liabilities, net	—	142	210	—	352	—	—	—	352
Other noncurrent liabilities	3	131	105	3	242	—	—	—	242
Total liabilities	2,896	1,281	1,093	2	5,272	160	—	—	5,432
Total Warner Music Group Corp. equity (deficit)	376	3,149	405	(3,554)	376	221	221	(597)	221
Noncontrolling interest	—	1	17	—	18	—	—	—	18
Total equity (deficit)	376	3,150	422	(3,554)	394	221	221	(597)	239
Total liabilities and equity (deficit)	$3,272	$ 4,431	$ 1,515	$ (3,552)	$ 5,666	$ 381	$ 221	$ (597)	$ 5,671

Consolidating Balance Sheet

September 30, 2014

	WMG Acquisition Corp. (issuer) (in millions)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
Assets:									
Current assets:									
Cash and equivalents	$—	$ 26	$ 131	$ —	$ 157	$ —	$ —	$ —	$ 157
Accounts receivable, net	—	174	209	—	383	—	—	—	383
Inventories	—	13	26	—	39	—	—	—	39
Royalty advances expected to be recouped within one year	—	62	40	—	102	—	—	—	102
Deferred tax assets	—	21	25	—	46	—	—	—	46
Prepaid and other current assets	5	10	40	—	55	—	—	—	55
Total current assets	5	306	471	—	782	—	—	—	782
Due (to) from parent companies	924	(242)	(682)	—	—	—	—	—	—
Investments in and advances to (from) consolidated subsidiaries	2,531	1,142	—	(3,673)	—	525	371	(896)	—
Royalty advances expected to be recouped after one year	—	115	75	—	190	—	—	—	190
Property, plant and equipment, net	—	143	84	—	227	—	—	—	227
Goodwill	—	1,379	282	—	1,661	—	—	—	1,661
Intangible assets subject to amortization, net	—	1,372	1,512	—	2,884	—	—	—	2,884
Intangible assets not subject to amortization	—	75	45	—	120	—	—	—	120
Other assets	46	10	28	—	84	6	—	—	90
Total assets	$3,506	$ 4,300	$ 1,815	$ (3,673)	$ 5,948	$ 531	$ 371	$ (896)	$ 5,954
Liabilities and Deficit:									
Current liabilities:									
Accounts payable	$38	$ 91	$ 86	$ —	$ 215	$ —	$ —	$ —	$ 215
Accrued royalties	—	531	601	—	1,132	—	—	—	1,132
Accrued liabilities	—	64	179	—	243	—	—	—	243
Accrued interest	50	—	—	—	50	10	—	—	60
Deferred revenue	—	167	52	—	219	—	—	—	219
	13	—	—	—	13	—	—	—	13

Current portion of long-term debt									
Other current liabilities	—	1	2	—	3	—	—	—	3
Total current liabilities	101	854	920	—	1,875	10	—	—	1,885
Long-term debt	2,867	—	—	—	2,867	150	—	—	3,017
Deferred tax liabilities, net	—	128	255	—	383	—	—	—	383
Other noncurrent liabilities	13	124	142	—	279	—	—	—	279
Total liabilities	2,981	1,106	1,317	—	5,404	160	—	—	5,564
Total Warner Music Group Corp. equity (deficit)	525	3,192	481	(3,673)	525	371	371	(896)	371
Noncontrolling interest	—	2	17	—	19	—	—	—	19
Total equity (deficit)	525	3,194	498	(3,673)	544	371	371	(896)	390
Total liabilities and equity (deficit)	$3,506	$ 4,300	$ 1,815	$ (3,673)	$ 5,948	$ 531	$ 371	$ (896)	$ 5,954

Consolidating Statement of Operations

For The Fiscal Year Ended September 30, 2015

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Revenues	$—	$ 1,632	$ 1,588	$ (254)	$ 2,966	$ —	$ —	$ —	$ 2,966
Costs and expenses:									
Cost of revenue	—	(788)	(866)	143	(1,511)	—	—	—	(1,511)
Selling, general and administrative expenses	1	(675)	(509)	110	(1,073)	—	—	—	(1,073)
Amortization of intangible assets	—	(122)	(133)	—	(255)	—	—	—	(255)
Total costs and expenses	1	(1,585)	(1,508)	253	(2,839)	—	—	—	(2,839)
Operating (loss) income	1	47	80	(1)	127	—	—	—	127
Loss on extinguishment of debt	—	—	—	—	—	—	—	—	—
Interest income (expense), net	(82)	6	(83)	—	(159)	(22)	—	—	(181)
Equity gains (losses) from consolidated subsidiaries	35	(67)	—	32	—	(69)	(91)	160	—
Other income (expense), net	(10)	1	(12)	—	(21)	—	—	—	(21)
Income (loss) before income taxes	(56)	(13)	(15)	31	(53)	(91)	(91)	160	(75)
Income tax benefit (expense)	(13)	(29)	—	29	(13)	—	—	—	(13)
Net income (loss)	(69)	(42)	(15)	60	(66)	(91)	(91)	160	(88)
Less: income attributable to noncontrolling interest	—	(1)	(2)	—	(3)	—	—	—	(3)
Net income (loss) attributable to Warner Music Group Corp.	$(69)	$ (43)	$ (17)	$ 60	$ (69)	$ (91)	$ (91)	$ 160	$ (91)

Consolidating Statement of Operations

For The Fiscal Year Ended September 30, 2014

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Revenues	$—	$ 1,498	$ 1,804	$ (275)	$ 3,027	$ —	$—	$ —	$ 3,027
Costs and expenses:									
Cost of revenue	—	(639)	(1,089)	158	(1,570)	—	—	—	(1,570)
Selling, general and administrative expenses	(1)	(633)	(655)	117	(1,172)	—	—	—	(1,172)
Amortization of intangible assets	—	(120)	(146)	—	(266)	—	—	—	(266)
Total costs and expenses	(1)	(1,392)	(1,890)	275	(3,008)	—	—	—	(3,008)
Operating income (loss)	(1)	106	(86)	—	19	—	—	—	19
Loss on extinguishment of debt	(141)	—	—	—	(141)	—	—	—	(141)
Interest income (expense), net	(102)	9	(88)	—	(181)	(22)	—	—	(203)
Equity gains (losses) from consolidated subsidiaries	(80)	113	—	(33)	—	(286)	(308)	594	—
Other income (expense), net	12	(18)	2	—	(4)	—	—	—	(4)
Income (loss) before income taxes	(312)	210	(172)	(33)	(307)	(308)	(308)	594	(329)
Income tax benefit (expense)	26	(9)	26	(17)	26	—	—	—	26
Net income (loss)	(286)	201	(146)	(50)	(281)	(308)	(308)	594	(303)
Less: income attributable to noncontrolling interest	—	(1)	(4)	—	(5)	—	—	—	(5)
Net income (loss) attributable to Warner Music Group Corp.	$(286)	$ 200	$ (150)	$ (50)	$ (286)	$ (308)	$(308)	$ 594	$ (308)

Consolidating Statement of Operations

For The Fiscal Year Ended September 30, 2013

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Revenues	$—	$ 1,637	$ 1,511	$ (277)	$ 2,871	$ —	$—	$ —	$ 2,871
Costs and expenses:									
Cost of revenue	—	(782)	(905)	195	(1,492)	—	—	—	(1,492)
Selling, general and administrative expenses	(1)	(578)	(600)	82	(1,097)	—	—	—	(1,097)
Amortization of intangible assets	—	(118)	(89)	—	(207)	—	—	—	(207)
Total costs and expenses	(1)	(1,478)	(1,594)	277	(2,796)	—	—	—	(2,796)
Operating income (loss)	(1)	159	(83)	—	75	—	—	—	75
Loss on extinguishment of debt	(85)	—	—	—	(85)	—	—	—	(85)
Interest income (expense), net	(154)	6	(33)	—	(181)	(22)	—	—	(203)
Equity gains (losses) from consolidated subsidiaries	(10)	(40)	—	50	—	(176)	(198)	374	—
Other income (expense), net	43	(29)	(26)	—	(12)	—	—	—	(12)
Income (loss) before income taxes	(207)	96	(142)	50	(203)	(198)	(198)	374	(225)
Income tax benefit (expense)	31	—	34	(34)	31	—	—	—	31
Net income (loss)	(176)	96	(108)	16	(172)	(198)	(198)	374	(194)
Less: income attributable to noncontrolling interest	—	(2)	(2)	—	(4)	—	—	—	(4)
Net income (loss) attributable to Warner Music Group Corp.	$(176)	$ 94	$ (110)	$ 16	$ (176)	$ (198)	$ (198)	$ 374	$ (198)

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Consolidating Statement of Comprehensive Income

For The Fiscal Year Ended September 30, 2015

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net (loss) income	$(69)	$(42)	$(15)	$60	$(66)	$(91)	$(91)	$160	$(88)
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	(59)	—	(59)	59	(59)	(59)	(59)	118	(59)
Minimum pension liability	—	—	—	—	—	—	—	—	—
Other comprehensive income (loss), net of tax:	(59)	—	(59)	59	(59)	(59)	(59)	118	(59)
Total comprehensive (loss) income	(128)	(42)	(74)	119	(125)	(150)	(150)	278	(147)
Less: income attributable to noncontrolling interest	—	(1)	(2)	—	(3)	—	—	—	(3)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$(128)	$(43)	$(76)	$119	$(128)	$(150)	$(150)	$278	$(150)

Consolidating Statement of Comprehensive Income

For The Fiscal Year Ended September 30, 2014

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net (loss) income	$(286)	$ 201	$ (146)	$ (50)	$ (281)	$ (308)	$ (308)	$ 594	$ (303)
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	(41)	—	(41)	41	(41)	(41)	(41)	82	(41)
Minimum Pension Liability	(6)	—	(6)	6	(6)	(6)	(6)	12	(6)
Other comprehensive income (loss), net of tax:	(47)	—	(47)	47	(47)	(47)	(47)	94	(47)
Total comprehensive (loss) income	(333)	201	(193)	(3)	(328)	(355)	(355)	688	(350)
Less: income attributable to noncontrolling interest	—	(1)	(4)	—	(5)	—	—	—	(5)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$(333)	$ 200	$ (197)	$ (3)	$ (333)	$ (355)	$ (355)	$ 688	$ (355)

Consolidating Statement of Comprehensive Income

For The Fiscal Year Ended September 30, 2013

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net (loss) income	$(176)	$ 96	$ (108)	$ 16	$ (172)	$ (198)	$ (198)	$ 374	$ (194)
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	(3)	—	(3)	3	(3)	(3)	(3)	6	(3)
Minimum Pension Liability	2	—	2	(2)	2	2	2	(4)	2
Deferred (losses) gains on derivative financial instruments	(1)	—	(1)	1	(1)	(1)	(1)	2	(1)
Other comprehensive income (loss), net of tax:	(2)	—	(2)	2	(2)	(2)	(2)	4	(2)
Total comprehensive (loss) income	(178)	96	(110)	18	(174)	(200)	(200)	378	(196)
Less: income attributable to noncontrolling interest	—	(2)	(2)	—	(4)	—	—	—	(4)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$(178)	$ 94	$ (112)	$ 18	$ (178)	$ (200)	$ (200)	$ 378	$ (200)

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Consolidating Statement of Cash Flows

For The Fiscal Year Ended September 30, 2015

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Cash flows from operating activities									
Net (loss) income	$(69)	$(42)	$(15)	$60	$(66)	$(91)	$(91)	$160	$(88)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:									
Loss on extinguishment of debt	—	—	—	—	—	—	—	—	—
Depreciation and amortization	(1)	162	148	—	309	—	—	—	309
Unrealized gains/losses and remeasurement of foreign denominated loans	21	55	(48)	—	28	—	—	—	28
Deferred income taxes	—	—	(11)	—	(11)	—	—	—	(11)
Gain on sale of assets	—	—	—	—	—	—	—	—	—
Non-cash interest expense	10	—	—	—	10	1	—	—	11
Non-cash share-based compensation expense	—	3	—	—	3	—	—	—	3
Equity losses (gains), including distributions	(35)	67	—	(32)	—	69	91	(160)	—
Changes in operating assets and liabilities:									
Accounts receivable	—	4	2	—	6	—	—	—	6
Inventories	—	(1)	(5)	—	(6)	—	—	—	(6)
Royalty advances	—	(23)	(23)	—	(46)	—	—	—	(46)
Accounts payable and accrued liabilities	—	26	(15)	(28)	(17)	—	—	—	(17)
Royalty payables	—	(19)	46	—	27	—	—	—	27
Accrued interest	(2)	—	—	—	(2)	—	—	—	(2)
Deferred revenue	—	(9)	21	—	12	—	—	—	12
Other balance sheet changes	—	3	(7)	—	(4)	—	—	—	(4)
Net cash provided by (used in) operating activities	(76)	226	93	—	243	(21)	—	—	222

Cash flows from investing activities									
Acquisition of music publishing rights, net	—	(9)	(7)	—	(16)	—	—	—	(16)
Capital expenditures	—	(48)	(15)	—	(63)	—	—	—	(63)
Investments and acquisitions of businesses, net	—	(11)	(5)	—	(16)	—	—	—	(16)
Advances to issuer	110	—	—	(110)	—	—	—	—	—
Net cash provided by (used in) investing activities	110	(68)	(27)	(110)	(95)	—	—	—	(95)
Cash flows from financing activities									
Dividend by Acquisition Corp. to Holdings Corp.	(21)	—	—	—	(21)	21	—	—	—
Proceeds from the Revolving Credit Facility	258	—	—	—	258	—	—	—	258
Repayment of the Revolving Credit Facility	(258)	—	—	—	(258)	—	—	—	(258)
Repayment of Acquisition Corp. Senior Term Loan Facility	(13)	—	—	—	(13)	—	—	—	(13)
Proceeds from issuance of Acquisition Corp. 5.625% Senior Secured Notes	—	—	—	—	—	—	—	—	—
Proceeds from issuance of Acquisition Corp. 6.750% Senior Notes	—	—	—	—	—	—	—	—	—
Repayment of Acquisition Corp. 11.5% Senior Notes	—	—	—	—	—	—	—	—	—
Financing costs paid	—	—	—	—	—	—	—	—	—
Deferred financing costs paid	—	—	—	—	—	—	—	—	—
Distribution to noncontrolling interest holder	—	(1)	(2)	—	(3)	—	—	—	(3)
Repayment of capital lease obligations	—	—	(3)	—	(3)	—	—	—	(3)
Change in due to (from) issuer	—	(110)	—	110	—	—	—	—	—
Net cash provided by (used in) financing activities	(34)	(111)	(5)	110	(40)	21	—	—	(19)
Effect of exchange rate changes on cash and equivalents	—	—	(19)	—	(19)	—	—	—	(19)
Net increase (decrease) in cash and equivalents	—	47	42	—	89	—	—	—	89
Cash and equivalents at beginning of period	—	26	131	—	157	—	—	—	157
Cash and equivalents at end of period	$—	$ 73	$ 173	$ —	$ 246	$ —	$ —	$ —	$ 246

Consolidating Statement of Cash Flows

For The Fiscal Year Ended September 30, 2014

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp. (issuer)	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Cash flows from operating activities									
Net (loss) income	$(286)	$ 201	$ (146)	$ (50)	$ (281)	$ (308)	$ (308)	$ 594	$ (303)
Adjustments to reconcile net (loss) income to net cash provided by operating activities:									
Loss on extinguishment of debt	141	—	—	—					