

Warner Music Group Corp.
Form 10-Q
May 08, 2007
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2007

OR

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

Commission File Number

001-32502

Warner Music Group Corp.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

75 Rockefeller Plaza

New York, NY 10019

13-4271875
(I.R.S. Employer

Identification No.)

Edgar Filing: Warner Music Group Corp. - Form 10-Q

(Address of principal executive offices)

(212) 275-2000

(Registrant's telephone number, including area code)

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

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

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

As of May 4, 2007, the number of shares of the Registrant's common stock, par value \$0.001 per share, outstanding was 149,505,665,711.

Table of Contents

WARNER MUSIC GROUP CORP.

INDEX

	Page
Part I. Financial Information	
Item 1. <u>Financial Statements (unaudited)</u>	1
<u>Consolidated Balance Sheets as of March 31, 2007 and September 30, 2006</u>	3
<u>Consolidated Statements of Operations for the Three Months Ended March 31, 2007 and 2006</u>	4
<u>Consolidated Statements of Operations for the Six Months Ended March 31, 2007 and 2006</u>	5
<u>Consolidated Statements of Cash Flows for the Six Months Ended March 31, 2007 and 2006</u>	6
<u>Consolidated Statement of Shareholders' Equity for the Six Months Ended March 31, 2007</u>	7
<u>Notes to Consolidated Interim Financial Statements</u>	8
<u>Supplementary Information - Consolidating Financial Statements</u>	18
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	41
Item 4. <u>Controls and Procedures</u>	42
Part II. Other Information	
Item 1. <u>Legal Proceedings</u>	43
Item 1A. <u>Risk Factors</u>	44
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	53
Item 3. <u>Defaults Upon Senior Securities</u>	53
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	53
Item 5. <u>Other Information</u>	54
Item 6. <u>Exhibits</u>	54
<u>Signatures</u>	55

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

	March 31, 2007 (unaudited)	September 30, 2006 (audited)
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	\$ 362	\$ 367
Short-term investments		18
Accounts receivable, less allowances of \$198 and \$207 million, respectively	513	585
Inventories	70	59
Royalty advances expected to be recouped within one year	194	191
Deferred tax assets	61	45
Other current assets	37	35
Total current assets	1,237	1,300
Royalty advances expected to be recouped after one year	238	207
Investments	26	25
Property, plant and equipment, net	135	146
Goodwill	984	929
Intangible assets subject to amortization, net	1,679	1,711
Intangible assets not subject to amortization	100	100
Other assets	93	102
Total assets	\$ 4,492	\$ 4,520
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable	\$ 200	\$ 209
Accrued royalties	1,178	1,142
Taxes and other withholdings	32	32
Current portion of long-term debt	17	17
Dividends payable	22	22
Other current liabilities	333	377
Total current liabilities	1,782	1,799
Long-term debt	2,249	2,239
Dividends payable	1	3
Deferred tax liabilities, net	205	197
Other noncurrent liabilities	251	224
Total liabilities	4,488	4,462
Commitments and Contingencies (See Note 12)		
Shareholders' equity:		
Common stock (\$0.001 par value; 500,000,000 shares authorized; 149,565,413 and 149,156,028 shares issued and outstanding, respectively)		
Additional paid-in capital	574	567
Accumulated deficit	(564)	(516)
Accumulated other comprehensive income, net	(6)	7

Edgar Filing: Warner Music Group Corp. - Form 10-Q

Total shareholders' equity	4	58
Total liabilities and shareholders' equity	\$ 4,492	\$ 4,520

See accompanying notes.

Table of Contents**Warner Music Group Corp.****Consolidated Statements of Operations (Unaudited)****Three Months Ended March 31, 2007 and 2006**

	Three Months Ended March 31,	Three Months Ended March 31,
	2007	2006
	(in millions, except per share amounts)	
Revenues (b)	\$ 784	\$ 796
Costs and expenses:		
Cost of revenues (a) (b)	(427)	(409)
Selling, general and administrative expenses (a) (b)	(275)	(294)
Restructuring costs	(12)	
Amortization of intangible assets	(51)	(48)
Total costs and expenses	(765)	(751)
Operating income	19	45
Interest expense, net	(45)	(45)
Equity in the gains of equity-method investees, net		1
Other income, net		2
(Loss) income before income taxes	(26)	3
Income tax expense	(1)	(10)
Net loss	\$ (27)	\$ (7)
Net loss per common share:		
Basic	\$ (0.19)	\$ (0.05)
Diluted	\$ (0.19)	\$ (0.05)
Weighted average common shares:		
Basic	145.9	141.9
Diluted	145.9	141.9
(a) Includes depreciation expense of	\$ (10)	\$ (11)
(b) Includes the following expenses resulting from transactions with related companies:		
Revenues	\$ 2	\$ 4
Selling, general and administrative expenses	\$	\$ (3)

See accompanying notes.

Table of Contents**Warner Music Group Corp.****Consolidated Statements of Operations (Unaudited)****Six Months Ended March 31, 2007 and 2006**

	Six Months Ended March 31,	Six Months Ended March 31,
	2007	2006
	(in millions, except per share amounts)	
Revenues (b)	\$ 1,712	\$ 1,840
Costs and expenses:		
Cost of revenues (a) (b)	(935)	(939)
Selling, general and administrative expenses (a) (b)	(565)	(617)
Restructuring costs	(12)	
Amortization of intangible assets	(101)	(95)
Total costs and expenses	(1,613)	(1,651)
Operating income	99	189
Interest expense, net	(92)	(90)
Equity in the gains of equity-method investees, net		1
Other income, net		2
Income before income taxes	7	102
Income tax expense	(16)	(40)
Net (loss) income	\$ (9)	\$ 62
Net (loss) income per common share:		
Basic	\$ (0.06)	\$ 0.44
Diluted	\$ (0.06)	\$ 0.41
Weighted average common shares:		
Basic	145.4	141.7
Diluted	145.4	150.6
(a) Includes depreciation expense of	\$ (20)	\$ (22)
(b) Includes the following expenses resulting from transactions with related companies:		
Revenues	\$ 3	\$ 4
Cost of revenues	\$ (1)	\$
Selling, general and administrative expenses	\$ (4)	\$ (8)

See accompanying notes.

Table of Contents**Warner Music Group Corp.****Consolidated Statements of Cash Flows (Unaudited)****Six Months Ended March 31, 2007 and 2006**

	Six Months Ended March 31, 2007	Six Months Ended March 31, 2006
	(in millions)	
Cash flows from operating activities		
Net (loss) income	\$ (9)	\$ 62
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	121	117
Deferred taxes	(22)	(2)
Non-cash interest expense	31	26
Non-cash, stock-based compensation expense	5	8
Equity in the gains of equity-method investees, including distributions		(1)
Changes in operating assets and liabilities:		
Accounts receivable	118	108
Inventories	(7)	8
Royalty advances	(28)	(29)
Accounts payable and accrued liabilities	(102)	(70)
Other balance sheet changes		(22)
Net cash provided by operating activities	107	205
Cash flows from investing activities		
Loan to third parties	(24)	
Sales (purchases) in short-term investments	18	(61)
Investments and acquisitions	(57)	(18)
Proceeds from the sale of buildings	7	
Capital expenditures	(13)	(12)
Net cash used in investing activities	(69)	(91)
Cash flows from financing activities		
Quarterly debt repayments	(8)	(8)
Proceeds from the exercise of stock options	2	
Dividends paid	(40)	&n