Electronically Filed
Docket: 21-CRB-0001-PR (2023-2027)
Filing Date: 10/20/2021 04:50:10 PM EDT

Before the
COPYRIGHT ROYALTY BOARD
LIBRARY OF CONGRESS
Washington, D.C.

In the Matter of:	Docket No. 21–CRB–0001–PR (2023–2027)
DETERMINATION OF RATES AND TERMS FOR MAKING AND DISTRIBUTING PHONORECORDS (Phonorecords IV)	

WRITTEN DIRECT STATEMENT OF COPYRIGHT OWNERS

VOLUME VI.H

PUBLIC VERSION

COEX-8.131

COEX-
8.131

May 30, 2018, 11:42am EDT

Research Shows Amazon Echo Owners Buy 29% More From Amazon

John Koetsier Senior Contributor ⓘ
Consumer Tech
John Koetsier is a journalist, analyst, author, and speaker.

This article is more than 3 years old.

Update May 31: The original version of this story reported the survey sample size as 40,000. The actual number is 39,000.

A massive new study of smart speakers and their connection to retail purchases shows that Amazon Echo buyers increase their spending at Amazon significantly after purchasing a smart speaker.

"We surveyed 39,000 Amazon customers," says Adam Marchick, CEO of Alpine.AI, which help companies build integrations with Amazon Echo and Google Home. "For people who have Echos, in the past 12 months they've significantly increased spending on pet food and treats, baking and cooking, grooming, and health and beauty products."

Amazon's family of Echo products AMAZON

Not only have people increased spending at Amazon, Marchick says, they've actually decreased spending elsewhere.

"[Echo] is causing people to get more reliant on Amazon," he told me last week. "There was a decline in grocery and general retail products that they're buying elsewhere."

According to the report, which was done in partnership with Infoscout, spending on Amazon jumps 29% after purchasing an Echo. While there was an overall increase in Amazon customers' spending, those who don't have an Echo increased less: 19%.

This is based on a significantly large sample: a starting set of 70,000 Amazon shoppers, 39,000 of which the company has 12 months of verified ecommerce and bricks-and-mortar purchase history "across all retail channels," Infoscout's marketing director Alison Shemyakin told me.

What's driving this surge in Amazon purchase behavior for Echo owners?

Convenience, seemingly.

Spending is particularly up for consumer packaged goods.

"The increased CPG spending is driven by slightly smaller but more frequent purchases," the report states. "Echo buyers spent $1 less per checkout after buying an Echo, but they made about seven more purchases over the course of the year."

While the average Amazon customer made just under 20 purchases during the course of the one-year study, Echo owners bought things almost 27 times.

Shopping cart size was down to $25 from $26, which suggests that an Echo helps drive more impulsive shopping behavior: think it, buy it.

Consumer packaged goods appear to be the big winner in this new voice-mediated retail ecosystem, with Echo owners buying CPG items much more frequently than non-Echo-owning Amazon customers.

"Drilling down further, shoppers with voice assistant devices purchase CPG products nearly two times as often when compared to all Amazon shoppers," the report states. "Health & Beauty is the leading category in this trend, as Echo owners purchased Health & Beauty products 53% more often than all Amazon shoppers in a 12-month period."

That's interesting for advertisers, and CPG products are among the most-advertised products on the planet. (Amazon has significant advertising revenue, and has been making steps in the past year closer to enabling advertising via the Echo.)

Smart speaker users are growing rapidly, about 50% per year. And while Amazon has had the early lead, Google recently claimed a quarterly sales title over the original market innovator.

With data like this, the market can only heat up.

"We're finally showing that buying an Echo leads to more purchasing on Amazon," Marchick told me. "No-one has ever seen data showing that fact before."

The market is still immature and ripe for the taking, and each major combatant has natural advantages.

While Amazon's Echo naturally only buys from Amazon, it's a simple, well-integrated process. But since it serves as Amazon's sales outpost in the home, other retailers are reluctant to sell it. Google's smart speaker, Google Home, will buy from dozens of retailers, including Walmart.

And since Google doesn't sell goods, it's easier for retailers to justify carrying the device. However, purchases are not quite as friction-free.

Follow me on Twitter or LinkedIn. Check out my website or some of my other work here.

John Koetsier

I forecast and analyze trends affecting the mobile ecosystem. I've been a journalist, analyst, and corporate executive, and have chronicled the rise of the mobile...

Read More

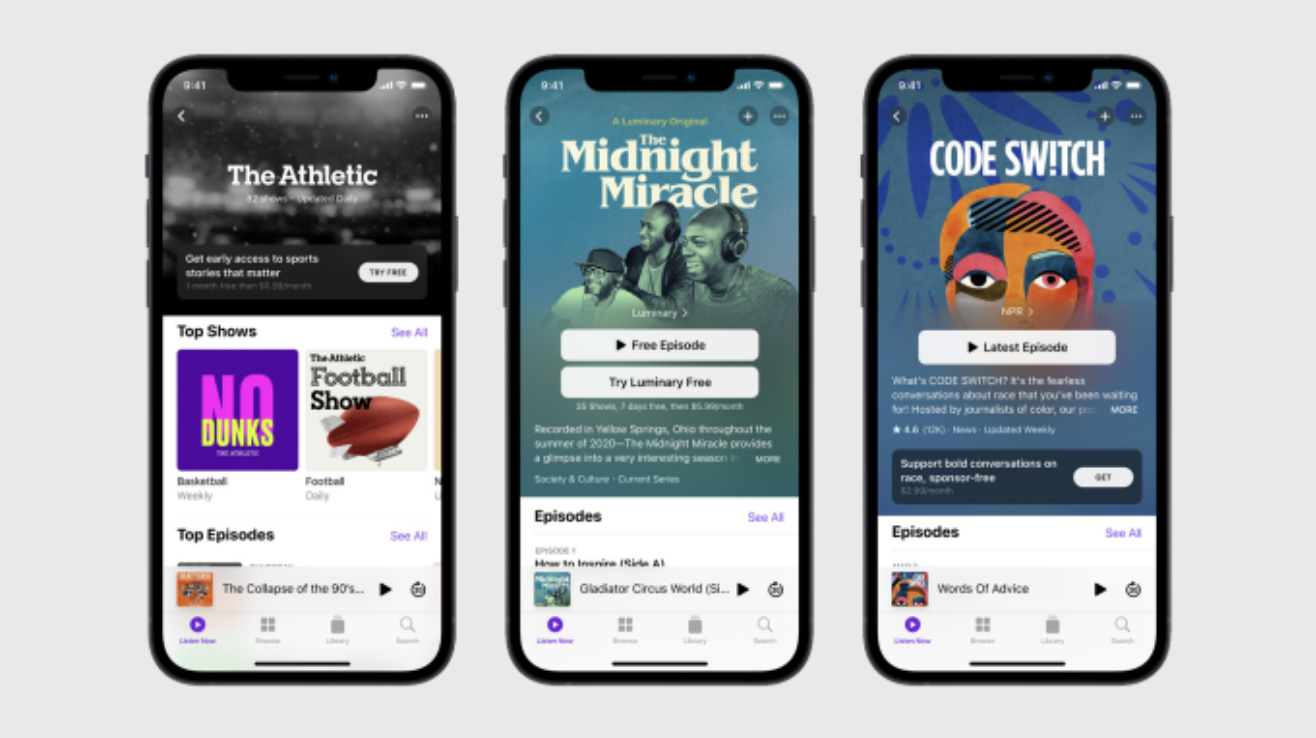
Reprints & Permissions

COEX-8.132

Apple Unveils Podcast Subscriptions

variety.com/2021/digital/news/apple-podcast-subscription-services-1234955558/

Todd Spangler April 20, 2021



Courtesy of Apple

Apple unwrapped its latest bid to boost content revenue: The tech giant announced that it will roll out subscriptions for Apple Podcasts with select partners starting next month. It's also launching an enhanced version of the Apple Podcasts app with the latest version of its iOS 14.5 operating system.

It's the "biggest change to Apple Podcasts since its debut," CEO Tim Cook said on the livestream for Apple's "Spring Loaded" virtual product launch event Tuesday. The company first launched podcast support in 2005, when it added the ability to download and listen to podcasts into iTunes.

Pricing for each podcast subscription is set by creators (billed monthly by default) as are perks included with each plan — which may include no ads, exclusive bonus content, and early or exclusive access to new series.

As is the case under its current App Store policies, Apple will keep 30% of podcast-subscription fees in the first year and 15% in subsequent years. Podcast creators and publishers also can offer annual billing options, as well as free trials and sample episodes.

Initial partners for Apple's podcast subscriptions include NPR, Tenderfoot TV, Radiotopia from PRX, Luminary, QCode, The Washington Post, The Los Angeles Times, The Athletic, Sony Music Entertainment, Lemonada Media, You Had Me at Black, Der Spiegel and Malcolm Gladwell and Jacob Weisberg's Pushkin Industries. The podcast subscription option will roll out in 170 regions and countries in May.

The Apple Podcasters Program, which includes tools needed to offer premium subscriptions on Apple Podcasts, will cost $19.99 per year.

The company noted that Apple Podcasts will continue to offer a wealth of free podcasts — currently, its lineup includes more than 2 million free shows.

"Apple Podcasts Subscriptions will provide another opportunity for listeners to support their favorite podcasters at NPR and our member stations in our mission to create a more informed public," John Lansing, president/CEO of NPR, said in a statement.

Some of Apple's partners announced pricing. Luminary on Apple Podcasts will cost $5.99 per month (the same as through the Luminary app) or $34.99 per year. The Washington Post will charge $2.99 per month for its full suite of podcasts without ads; TenderfootPlus+ will cost $4.99 monthly for ad-free listening, early access and exclusive bonus content; QCode Plus ($2.99 per month) will offer 12 original shows with no ads and bonus material. And PRX will charge $4.99 per month for access to ad-free episodes on each of four new podcast channels: "Radiotopia Uninterrupted," "Pod Squad Uninterrupted," "Snap Judgment Uninterrupted" and "The Moth Uninterrupted."

Alongside podcast subscriptions, Apple is rolling out a redesigned Apple Podcasts app, which will provide a landing page for each podcast title, as well as new channels (groups of shows curated by creators) and recommendations for users. That will make "listening to podcasts easier and more enjoyable than ever before," Cook said.

The redesigned Apple Podcasts app, available with iOS 14.5, also features an enhanced search tab that provides access to Top Charts and categories and a new "Smart Play" button that automatically starts episodic shows from the latest episode and starts serialized shows from the beginning of each series.

Also at the "Spring Loaded" event, Apple announced an upgraded version of the Apple TV 4K set-top; faster, 5G-enabled versions of the iPad Pro tablet; a new line of multicolored iMacs; and AirTags, small wireless devices that use Apple's Find My Network app to let customers track down objects (like Tile).

Apple's plans to monetize podcasts through paid subscriptions reflect the ongoing rise of the medium's popularity. About 80 million Americans (28% of the U.S. population 12 and older) are now weekly podcast listeners, up 17% over 2020, per Triton Digital/Edison Research's latest research.

The move adds a new wrinkle to the competitive dynamics for the podcast industry. Earlier this year, Spotify similarly announced that it would begin testing the ability for podcasters to earn revenue through paid subscriptions for exclusive content.

The Apple Podcasts subscription options will join the company's collection of other content offerings, which include Apple TV Plus, Apple Music, Apple Arcade and Apple News Plus. For the year-end 2020 quarter, revenue in Apple's Services segment — which also includes the App Store and Apple Pay — zipped up 24%, to a record $15.8 billion.

For now, it's not clear how — or whether — the podcast subscriptions may be incorporated into the Apple One bundles. Launched last fall, Apple One packages provide discounts from regular monthly à la carte pricing.

optional screen reader

COEX-8.133

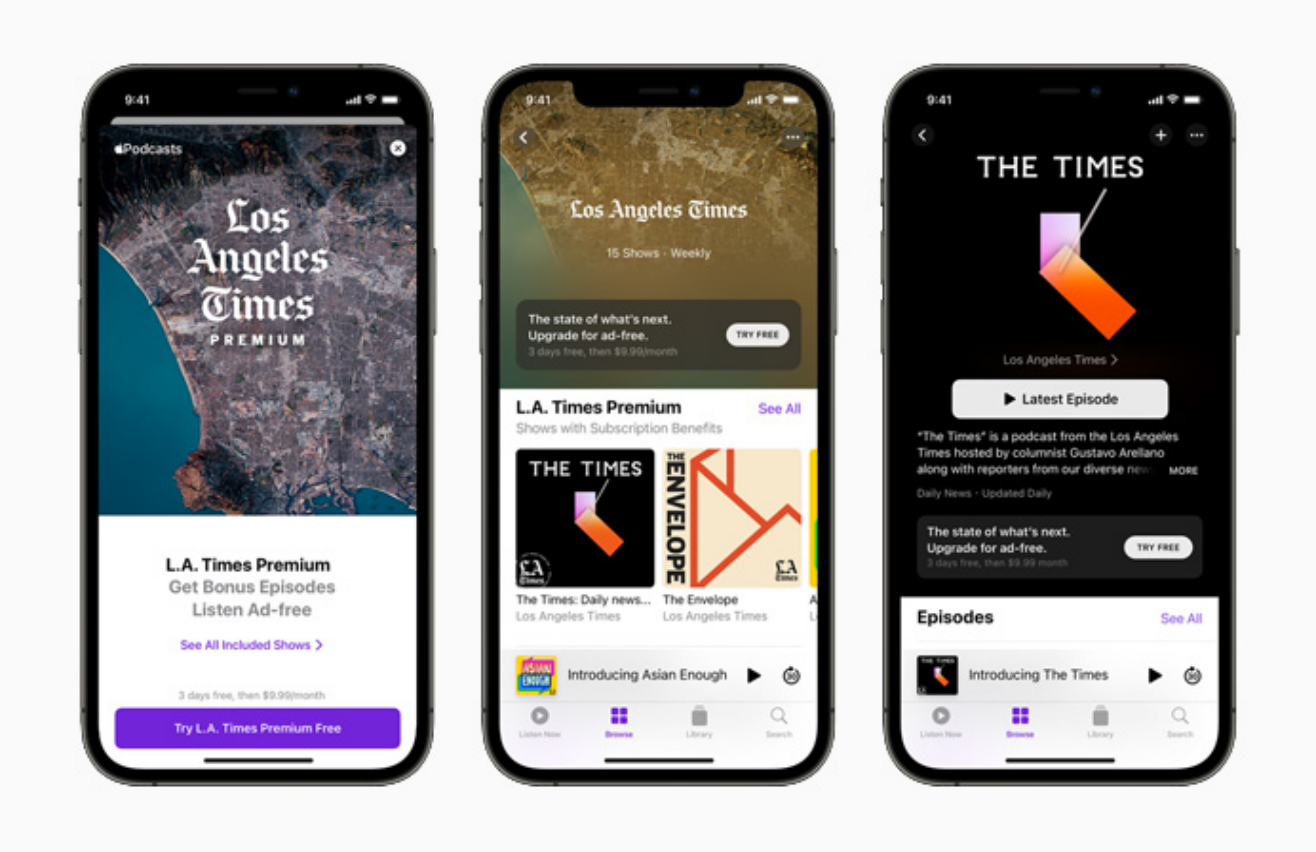
COEX-
8.133

Apple Podcasts Subscriptions and channels are now available worldwide

apple.com/newsroom/2021/06/apple-podcasts-subscriptions-and-channels-are-now-available-worldwide/

PRESS RELEASE June 15, 2021

Thousands of Apple Podcasts Subscriptions and channels from the world's best audio creators, including the Los Angeles Times, Luminary, NPR, Pushkin Industries, and QCODE, are available today, with more launching every week



Apple Podcasts Subscriptions and channels are available for listeners starting today.

Cupertino, California Apple today announced Apple Podcasts Subscriptions, the global marketplace for premium podcast subscriptions, is now available. Starting today, listeners in more than 170 countries and regions[1] can purchase subscriptions for individual shows and groups of shows through channels, making it easy to support their favorite creators, enjoy

new content, and unlock additional benefits such as ad-free listening and early access, directly on Apple Podcasts.
Listeners can discover thousands of subscriptions and channels featuring brand new shows that span many genres and formats, including news, comedy, sports, and true crime, offering listeners premium experiences that help them stay informed, entertained, connected, and inspired. These include subscriptions to shows from essential independent voices like “Birthful” with Adriana Lozada, “Pantsuit Politics” with Beth Silvers and Sarah Stewart Holland, “Snap Judgment” with Glynn Washington, and “You Had Me At Black” with Martina Abrams Ilunga; premier studios such as Lemonada Media, Luminary, Realm, and Wondery; and leading media and entertainment brands, including CNN, NPR, The Washington Post, and Sony Music Entertainment.

With Apple Podcasts Subscriptions, listeners can experience never-before-heard stories on Luminary’s “The Midnight Miracle” with Talib Kweli, Yasiin Bey, and Dave Chappelle, and Pushkin Industries’ “Revisionist History” with Malcolm Gladwell; the next chapters of QCODE’s apocalyptic thriller “Blackout,” starring Rami Malek and Aja Naomi King, and Realm’s “Orphan Black,” featuring Tatiana Maslany; the unrivaled chemistry and insightful commentary driving CNN’s “The Handoff,” and Politico’s “Playbook: Deep Dive”; and many more.

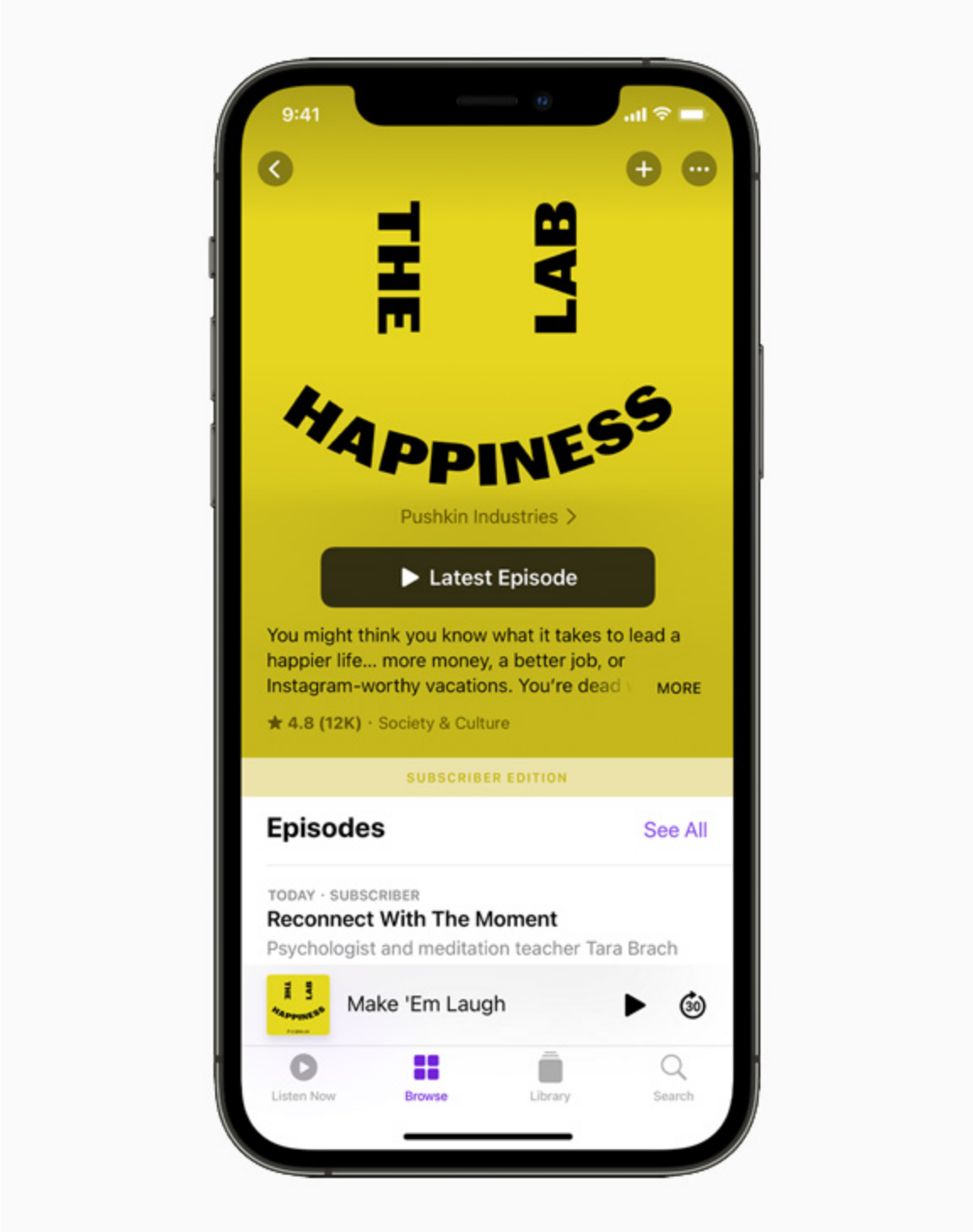
“Listeners can’t get enough of their favorite podcasts and want a simple way to support the extraordinary creators who make them possible,” said Oliver Schusser, Apple’s vice president of Apple Music and Beats. “Now, listeners can enjoy new content and additional benefits for thousands of new and popular podcasts, alongside millions of free shows, with more arriving every week. Apple Podcasts Subscriptions will help creators grow their businesses and continue to make podcasting an important source of information, entertainment, connection, and inspiration for hundreds of millions of listeners around the world.”

Discover Subscriptions and Channels

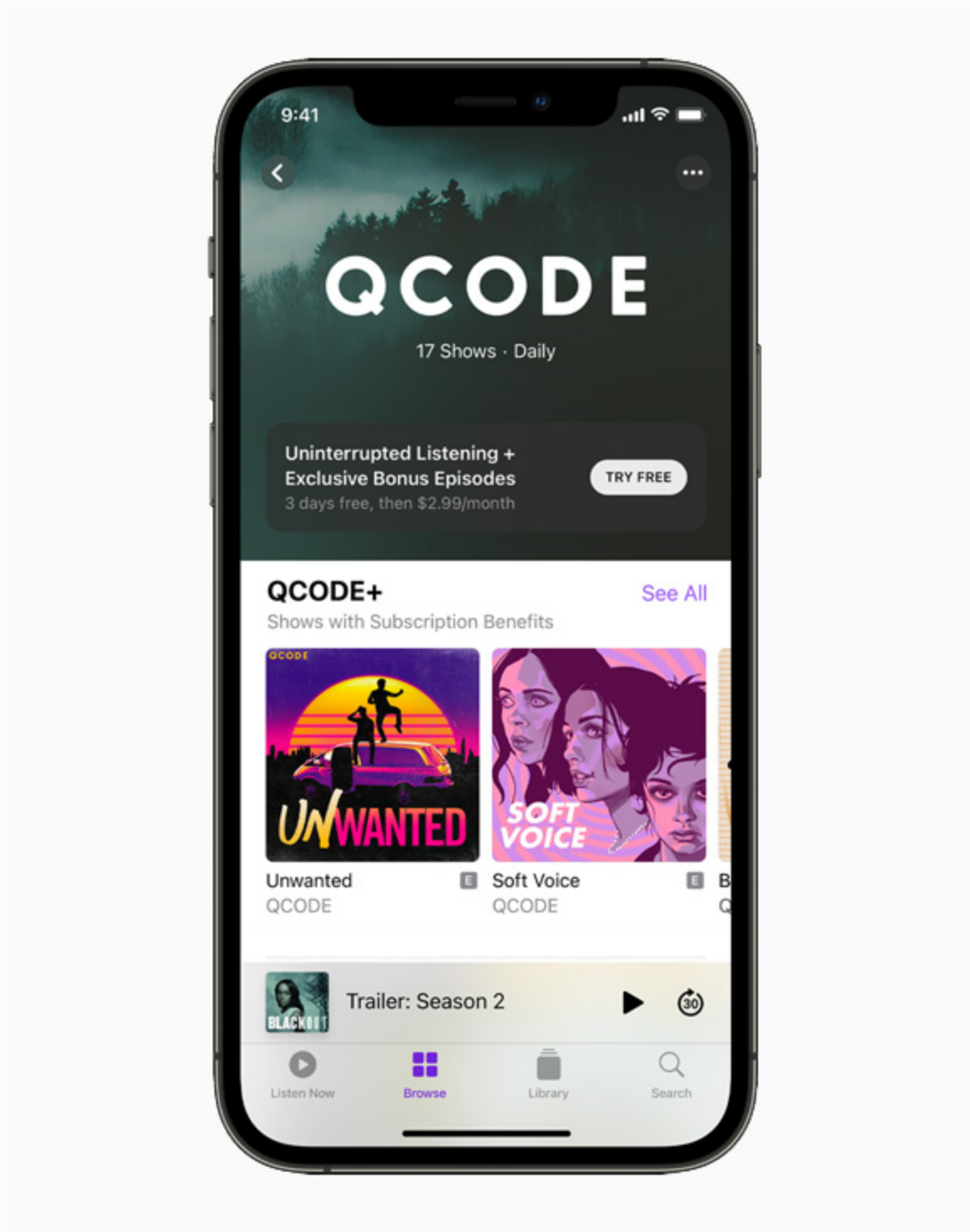
When listeners purchase a subscription to a show, they automatically follow the show and the page is updated with a Subscriber Edition label so they know they have access to the premium experience. Listeners can discover channels for their favorite podcasts from each show page and through Search, explore recommendations from the Listen Now and Browse tabs, and share channels using Messages, Mail, and other apps. As listeners subscribe to channels, the Listen Now tab expands with new rows that provide easy access to all of the content included in the channel and with their subscription. Listeners who subscribe to two or more channels will see a My Channels row in the Listen Now tab, where they can browse and follow all of the shows offered.

- The Happiness Lab podcast displayed on iPhone 12 Pro.
- The QCODE+ podcast subscription sign up displayed on iPhone 12 Pro.

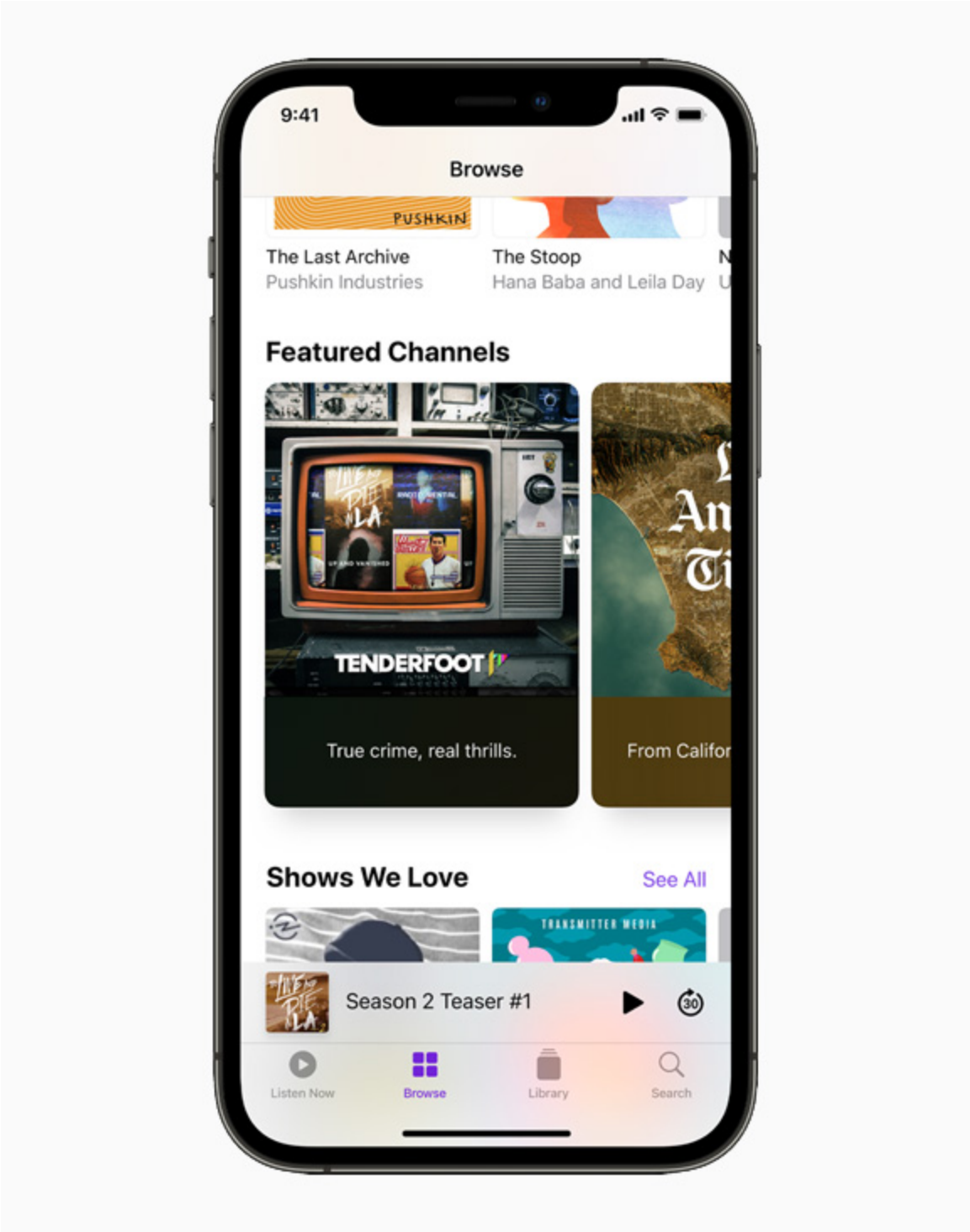
- The Featured Channels in the Browse tab in Apple Podcasts displayed on iPhone 12 Pro.
- The My Channels row in Apple Podcasts displayed on iPhone 12 Pro.



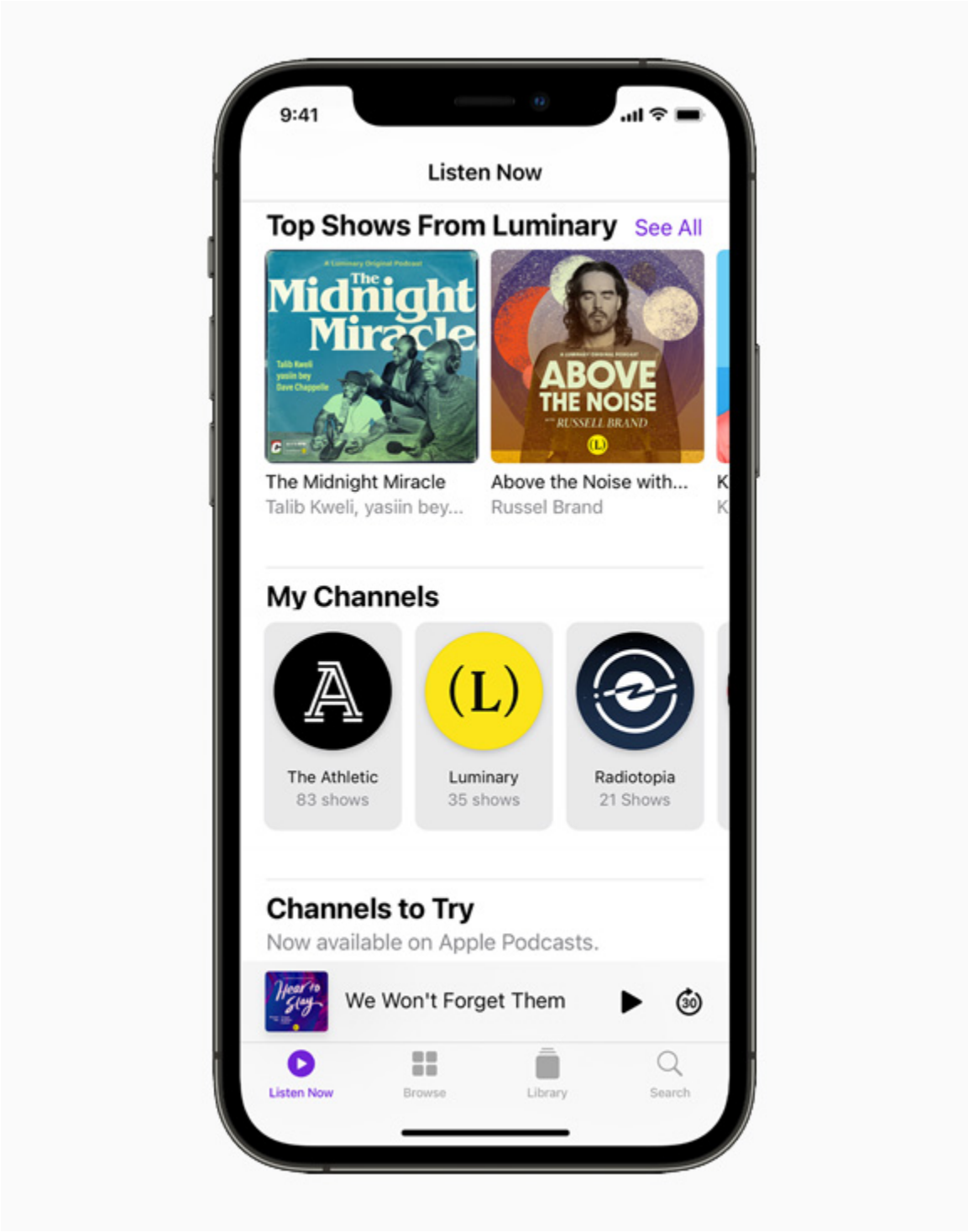
Subscribers automatically receive new episodes with the benefits included in their subscription.



Channels make it easy to discover shows and subscriptions.



Discover recommendations for channels in Listen Now and Browse.



Listeners can access channels with active subscriptions under My Channels in Listen Now.

-
-

New Shows and Seasons, Available with Apple Podcasts Subscriptions

Listeners can hear new and original shows, and get early access to new seasons of critically acclaimed and fan-favorite series, all ad-free, including:

“Chameleon: High Rollers” with Trevor Aaronson, from Campside Media: Last year, Josh Dean and Vanessa Grigoriadis told listeners the remarkable true story of the Hollywood Con Queen scam. This summer, the critically acclaimed series returns with a new story about a doomed FBI sting operation in Las Vegas. Trevor Aaronson investigates what happened and how it all went off the rails. Subscribers enjoy new episodes first starting today, plus exclusive bonus episodes throughout the season.

“The Handoff” with Don Lemon and Chris Cuomo from CNN: The love viewers witness between Don Lemon and Chris Cuomo in the handoff between their evening broadcasts is real. Now, Lemon and Cuomo are stepping out from behind the anchor desk for a weekly conversation where nothing is off limits. “The Handoff” is available today exclusively to subscribers on Apple Podcasts.

“The Midnight Miracle” with Talib Kweli, Yasiin Bey, and Dave Chappelle, from Luminary: A groundbreaking original series that uniquely blends the salon and variety shows formats, recorded during Chappelle’s legendary 2020 Summer Camp in Ohio. “The Midnight Miracle” is available exclusively to Luminary subscribers today.

“Revisionist History” with Malcolm Gladwell, part of PushNik from Pushkin Industries: Bestselling author Malcolm Gladwell’s journey through the overlooked and the misunderstood moments in history continues. In this new season, Gladwell races autonomous vehicles, rewrites one of America’s most beloved fairy tales, falls in love with a small college in New Orleans, and dives into dirty laundry.

“To Live and Die in LA” with Neil Strauss, from Tenderfoot TV: After revealing the truth about the tragic death of an aspiring Hollywood actress, the award-winning series returns to uncover the baffling, tragic, and mysterious disappearance of Elaine Park. Neil Strauss investigates — along with his wife, neighbors, Incubus guitarist Mike Einziger, and concert violinist Ann Marie Simpson — to advance the investigation and provide closure for her loved ones. TenderfootPlus+ subscribers will gain early and exclusive access to upcoming bonus episodes.

New Subscriptions and Channels from Premier Studios

Lemonada Media: Sort through the messiness of life and get inspired by high-quality shows with all-star hosts focused on important causes. Subscribers to Lemonada Premium join an incredible community, support meaningful, world-shaping content from a women-run network, gain early access to new series, and unlock bonus episodes from leading shows.

Radiotopia from PRX: Home to podcasts from extraordinary, independent creators, including “Ear Hustle,” with Earlonne Woods, Nigel Poor, and Rahsaan Thomas, “Criminal” with Phoebe Judge, “Song Exploder” with Hrishikesh Hirway, “The Stoop” with Hana Baba and Leila Day, “Passenger List” starring Kelly Marie Tran, and more. Subscribers to Radiotopia Uninterrupted support the work they do and gain access to ad-free listening across the award-winning network.

Pushkin Industries: Listen to revelatory shows from world-class writers and thinkers, including “A Slight Change of Plans” with Dr. Maya Shankar, “The Last Archive” with historian Jill Lepore, “The Happiness Lab” with Dr. Laurie Santos, “Against The Rules” with author Michael Lewis, “Broken Record” with legendary producer Rick Rubin, and more. PushNik subscribers can hear these shows and more with no interruptions, and access exclusive bonus content.

Tenderfoot TV:Dive into gripping true-crime narratives, documentaries, and anthology series from the award-winning, independent, Atlanta-based production studio behind “Up and Vanished” and “Atlanta Monster” with filmmaker Payne Lindsey, “Whistleblower” with sports journalist Tim Livingston, “Radio Rental,” and more. Subscribers to TenderfootPlus+ enjoy ad-free listening and gain early and exclusive access to upcoming bonus episodes.

Beginning today, listeners can find additional subscriptions from other premier studios and entertainment brands, including Audio Up, Betches Media, Blue Wire, Imperative Entertainment, Lantigua Williams & Co., Magnificent Noise, The Moth, Neon Hum Media, Sony Music Entertainment, Three Uncanny Four, and Wondery, plus channels from Audacy’s Cadence13 and Ramble, Barstool Sports, Jake Brennan’s Double Elvis, Headgum, iHeartMedia’s The Black Effect, Big Money Players, Grim & Mild, Seneca Women, Shondaland, and Relay FM.

New and Emerging Formats Powered by Subscriptions

Scripted Fiction: Subscribers get early and exclusive access to immersive original narratives with uninterrupted listening experiences from award-winning storytellers, produced by Meet Cute, QCODE, Realm, and more.

Mindfulness and Sleep: New shows featuring calming meditations, soothing music, and relaxing stories from WaitWhat’s “Meditative Story” with Rohan Gunatillake, Frequency’s “Drift” with Erin Davis, and “Sleep by Headspace” help listeners practice mindfulness and support a good night’s rest.

Kids and Family: Introduce kids to their new co-detectives, downtime companions, and study buddies with premium subscriptions featuring curated collections of age-appropriate, ad-free original stories spanning mysteries, comedies, musicals, and more from GBH, Gen-Z Media, Pinna, Wonkybot Studios, TRAX from PRX, and others.

News Providers Offering Subscriptions and Channels

The Athletic: Join the conversation on every sports story that matters. With breaking news, expert commentary, insightful analysis, and unrivaled narratives, The Athletic is powered by hundreds of full-time local writers to deliver exclusive sports coverage built around fandom.

FOX News: Hear from Dana Perino, Bret Baier, Shannon Bream, Trey Gowdy, Martha MacCallum, and other signature voices — all without commercials. Subscribers receive early access to seasonal series from FOX News Investigates, bonus episodes from FOX News Radio's talk shows, audio versions of popular FOX News Channel programs, and a variety of long-form interviews.

Los Angeles Times: Enjoy the engaging, informative, and diverse journalism and storytelling the L.A. Times is known for with access to ad-free versions of "The Times," a new daily news podcast hosted by columnist Gustavo Arellano; the new season of "Asian Enough" with reporters Jen Yamato, Johana Bhuiyan, Tracy Brown, and Suhauna Hussain; "Chasing Cosby" with Nicki Weisensee Egan and other narrative series; plus subscriber-exclusive bonus episodes for the all-new "The Trials of Frank Carson" from Christopher Goffard, host of "Dirty John" and "Detective Trapp."

NPR: Enjoy sponsor-free versions of leading NPR shows across news, business, culture, and more, including "Fresh Air" with Terry Gross, "How I Built This with Guy Raz," "It's Been a Minute with Sam Sanders," "Planet Money" with Jacob Goldstein, Karen Duffin, and Sarah Gonzalez, "Short Wave" with Madeline Sofia, and the Apple Podcasts 2020 Show of the Year, "Code Switch," with Shereen Marisol Meraji and Gene Demby.

The Washington Post: Listen to ad-free editions of The Post's award-winning podcasts spanning daily news, documentaries, investigations, and deep discussions around specific topics and moments in history, including "Post Reports" with Martine Powers, "Moonrise" with Lillian Cunningham, "Canary" with Amy Brittain, and "Cape Up with Jonathan Capehart."

This month, listeners can also find subscriptions from Bloomberg Media, Los Angeles Times, Politico, and Vox Media, plus channels from other leading newspapers, magazines, broadcasters, radio stations, and digital publishers, including ABC News, Axios, Billboard, Bravo, CNBC, CNN, Crooked Media, Dateline, Entertainment Weekly, Futuro Media, The Hollywood Reporter, LAist Studios, National Geographic, MSNBC, NBC News, NBC Sports, New York Magazine, The New York Times, SiriusXM, SB Nation, Southern Living, The Verge, TODAY, VICE, Vogue, Vox, and WBUR.

Even More Subscriptions with Channels

Notable international subscriptions and channels available beginning today include ABC, LiSTNR, and SBS from Australia; Abrace Podcasts from Brazil; CANADALAND and Frequency Podcast Network from Canada; GoLittle from Denmark; Europe 1, Louie Media,

and Radio France from France; Der Spiegel, Podimo, and ZEIT ONLINE from Germany; Il Sole 24 Ore and Storielibere.fm from Italy; J-WAVE from Japan; Brainrich from Korea; libo/libo from Russia; Finyal Media from the UAE; and Broccoli Productions, The Bugle, Content Is Queen, the Guardian, Immediate Media, and Somethin' Else from the UK.

Creators interested in offering subscriptions and channels are encouraged to visit Apple Podcasts for Creators.

Pricing and Availability

Apple Podcasts Subscriptions and channels are available to listeners in more than 170 countries and regions on Apple devices running iOS 14.6, iPadOS 14.6, and macOS 11.4 or later.

Customers can play subscription content on Apple Watch with watchOS 7.5 or later and with HomePod, HomePod mini, and CarPlay.

Pricing for each subscription is set by creators and starts at **$0.49** (US) per month. Listeners can manage their subscriptions, and switch from monthly to annual billing if offered, from their Apple ID Account Settings, accessible from the top of the Listen Now tab in Apple Podcasts.

Apple Podcasts Subscriptions can be purchased and gifted using Apple Gift Card.

Apple Card customers receive 3 percent Daily Cash with each Apple Podcasts Subscription and can view itemized receipts for each Apple Podcasts Subscription in the Apple Wallet app.

Each Apple Podcasts Subscription can be shared among six family members through Family Sharing.

For recommendations on shows to follow and what to listen to next, follow @ApplePodcasts on Twitter.

About Apple Podcasts

Apple took podcasts mainstream. With iPod and iTunes, listeners could enjoy thousands of free shows from the best radio stations, news publishers, and independent creators instantly. For more than 15 years, podcasts have informed, entertained, and inspired hundreds of millions of listeners with gripping stories and fresh perspectives. Today, Apple Podcasts is the best place for listeners to discover, enjoy, and support their favorite podcasts, now featuring millions of shows with programming in more than 100 languages. Apple Podcasts is available for free in over 170 countries and regions on iPhone, iPad, iPod touch, Mac, Apple Watch, Apple TV, HomePod and HomePod mini, CarPlay, iTunes on Windows, and other smart speakers and car systems.

Share article

-
-
-
-

Images of Apple Podcasts

Download all images

About Apple

Apple revolutionized personal technology with the introduction of the Macintosh in 1984. Today, Apple leads the world in innovation with iPhone, iPad, Mac, Apple Watch, and Apple TV. Apple's five software platforms — iOS, iPadOS, macOS, watchOS, and tvOS — provide seamless experiences across all Apple devices and empower people with breakthrough services including the App Store, Apple Music, Apple Pay, and iCloud. Apple's more than 100,000 employees are dedicated to making the best products on earth, and to leaving the world better than we found it.

1. Subscriptions and channel availability and pricing vary by country and region. Some features are not available in all regions and for some languages.

Press Contacts

Zach Kahn

Apple

zkahn@apple.com

(669) 276-2811

Apple Media Helpline

media.help@apple.com

(408) 974-2042

COEX-8.134

2020 Letter to Shareholders

aboutamazon.com/news/company-news/2020-letter-to-shareholders

April 15, 2021

To our shareowners:

In Amazon's 1997 letter to shareholders, our first, I talked about our hope to create an "enduring franchise," one that would reinvent what it means to serve customers by unlocking the internet's power. I noted that Amazon had grown from having 158 employees to 614, and that we had surpassed 1.5 million customer accounts. We had just gone public at a split-adjusted stock price of $1.50 per share. I wrote that it was Day 1.

We've come a long way since then, and we are working harder than ever to serve and delight customers. Last year, we hired 500,000 employees and now directly employ 1.3 million people around the world. We have more than 200 million Prime members worldwide. More than 1.9 million small and medium-sized businesses sell in our store, and they make up close to 60% of our retail sales. Customers have connected more than 100 million smart home devices to Alexa. Amazon Web Services serves millions of customers and ended 2020 with a $50 billion annualized run rate. In 1997, we hadn't invented Prime, Marketplace, Alexa, or AWS. They weren't even ideas then, and none was preordained. We took great risk with each one and put sweat and ingenuity into each one.

Along the way, we've created $1.6 trillion of wealth for shareowners. Who are they? Your Chair is one, and my Amazon shares have made me wealthy. But more than 7/8ths of the shares, representing $1.4 trillion of wealth creation, are owned by others. Who are they? They're pension funds, universities, and 401(k)s, and they're Mary and Larry, who sent me this note out of the blue just as I was sitting down to write this shareholder letter:

COEX-
8.134

March 5. 2021

Mr. Jeff Bezos
Executive Chairman
Amazon.com. Inc.
410 Terry Avenue North
Seattle, WA 98109

Dear Mr. Bezos,

Thanks for making Amazon a great company! We thought you would like to know how it has benefited our family.

Back in 1997 when you made Amazon public, our son, Ryan, was 12 years old and a voracious reader. For his birthday, , 1997, we bought two shares of your new book selling company, which was all we could afford at the time. Within a year or so, the shares split 2 for 1, then 3 for 1, then 2 for 1 again, giving him 24 shares. The shares were in our names because of his age. We meant to put it in custody for him but we never got around to it but he knew they were for him.

Several times over the years, Ryan would want to cash in the stock but we always said we would "buy" it from him and then eventually turn around and give it back to him as a "gift". It was kind of a running joke in the family.

Due to the exponential growth in value, we decided to split the stock between ourselves and both of our children, Ryan and Katy.

This year Ryan is buying a house and would like to sell some shares. After searching for the original certificates, we needed to convert the paper shares into digital before selling them. We noticed that the first share certificate was a very low number, issue # . I can't image how many more shares have been issued since that date!

Included is a copy of the th certificate of Amazon on , 1997 - 24 years ago. Those two shares have had a wonderful influence on our family. We all enjoyed watching Amazon value grow year after year and it's a story we love to tell others.

Congratulations on a great career as CEO of Amazon. We can't even imagine how hard you and your team have worked to make Amazon the most successful and inventive company on the planet. Now may you have time to relax and catch up on things you want to do, like space exploration!

We cannot wait to see where Amazon delivers next! Next Day to Mars!

Sincerely,

Mary and Larry

P.S. We wished we had bought 10 shares!

I am approached with similar stories all the time. I know people who've used their Amazon money for college, for emergencies, for houses, for vacations, to start their own business, for charity – and the list goes on. I'm proud of the wealth we've created for shareowners. It's significant, and it improves their lives. But I also know something else: it's not the largest part of the value we've created.

Create More Than You Consume

If you want to be successful in business (in life, actually), you have to create more than you consume. Your goal should be to create value for everyone you interact with. Any business that doesn't create value for those it touches, even if it appears successful on the surface, isn't long for this world. It's on the way out.

Remember that stock prices are not about the past. They are a prediction of *future* cash flows discounted back to the present. The stock market anticipates. I'm going to switch gears for a moment and talk about the past. How much value did we create for shareowners in 2020? This is a relatively easy question to answer because accounting systems are set up to answer it. Our net income in 2020 was $21.3 billion. If, instead of being a publicly traded company with thousands of owners, Amazon were a sole proprietorship with a single owner, that's how much the owner would have earned in 2020.

How about employees? This is also a reasonably easy value creation question to answer because we can look at compensation expense. What is an expense for a company is income for employees. In 2020, employees earned $80 billion, plus another $11 billion to include benefits and various payroll taxes, for a total of $91 billion.

How about third-party sellers? We have an internal team (the Selling Partner Services team) that works to answer that question. They estimate that, in 2020, third-party seller profits from selling on Amazon were between $25 billion and $39 billion, and to be conservative here I'll go with $25 billion.

For customers, we have to break it down into consumer customers and AWS customers.

We'll do consumers first. We offer low prices, vast selection, and fast delivery, but imagine we ignore all of that for the purpose of this estimate and value only one thing: we save customers time.

Customers complete 28% of purchases on Amazon in three minutes or less, and half of all purchases are finished in less than 15 minutes. Compare that to the typical shopping trip to a physical store – driving, parking, searching store aisles, waiting in the checkout line, finding your car, and driving home. Research suggests the typical physical store trip takes about an hour. If you assume that a typical Amazon purchase takes 15 minutes and that it saves you a couple of trips to a physical store a week, that's more than 75 hours a year saved. That's important. We're all busy in the early 21st century.

So that we can get a dollar figure, let's value the time savings at $10 per hour, which is conservative. Seventy-five hours multiplied by $10 an hour and subtracting the cost of Prime gives you value creation for each Prime member of about $630. We have 200 million Prime members, for a total in 2020 of $126 billion of value creation.

AWS is challenging to estimate because each customer's workload is so different, but we'll do it anyway, acknowledging up front that the error bars are high. Direct cost improvements from operating in the cloud versus on premises vary, but a reasonable estimate is 30%. Across AWS's entire 2020 revenue of $45 billion, that 30% would imply customer value creation of $19 billion (what would have cost them $64 billion on their own cost $45 billion from AWS). The difficult part of this estimation exercise is that the direct cost reduction is the smallest portion of the customer benefit of moving to the cloud. The bigger benefit is the increased speed of software development – something that can significantly improve the customer's competitiveness and top line. We have no reasonable way of estimating that portion of customer value except to say that it's almost certainly larger than the direct cost savings. To be conservative here (and remembering we're really only trying to get ballpark estimates), I'll say it's the same and call AWS customer value creation $38 billion in 2020.

Adding AWS and consumer together gives us total customer value creation in 2020 of $164 billion.

Summarizing:

Shareholders	$21B
Employees	$91B
3P Sellers	$25B
Customers	$164B
Total	$301B

If each group had an income statement representing their interactions with Amazon, the numbers above would be the "bottom lines" from those income statements. These numbers are part of the reason why people work for us, why sellers sell through us, and why customers buy from us. We create value for them. And this value creation is not a zero-sum game. It is not just moving money from one pocket to another. Draw the box big around all of society, and you'll find that invention is the root of all real value creation. And value created is best thought of as a metric for innovation.

Of course, our relationship with these constituencies and the value we create isn't exclusively dollars and cents. Money doesn't tell the whole story. Our relationship with shareholders, for example, is relatively simple. They invest and hold shares for a duration of their choosing. We provide direction to shareowners infrequently on matters such as annual meetings and the right process to vote their shares. And even then they can ignore those directions and just skip voting.

Our relationship with employees is a very different example. We have processes they follow and standards they meet. We require training and various certifications. Employees have to show up at appointed times. Our interactions with employees are many, and they're fine-grained. It's not just about the pay and the benefits. It's about all the other detailed aspects of the relationship too.

Does your Chair take comfort in the outcome of the recent union vote in Bessemer? No, he doesn't. I think we need to do a better job for our employees. While the voting results were lopsided and our direct relationship with employees is strong, it's clear to me that we need a better *vision* for how we create value for employees – a vision for their success.

If you read some of the news reports, you might think we have no care for employees. In those reports, our employees are sometimes accused of being desperate souls and treated as robots. That's not accurate. They're sophisticated and thoughtful people who have options for where to work. When we survey fulfillment center employees, 94% say they would recommend Amazon to a friend as a place to work.

Employees are able to take informal breaks throughout their shifts to stretch, get water, use the rest room, or talk to a manager, all without impacting their performance. These informal work breaks are in addition to the 30-minute lunch and 30-minute break built into their normal schedule.

We don't set unreasonable performance goals. We set achievable performance goals that take into account tenure and actual employee performance data. Performance is evaluated over a long period of time as we know that a variety of things can impact performance in any given week, day, or hour. If employees are on track to miss a performance target over a period of time, their manager talks with them and provides coaching.

Coaching is also extended to employees who are excelling and in line for increased responsibilities. In fact, 82% of coaching is positive, provided to employees who are meeting or exceeding expectations. We terminate the employment of less than 2.6% of employees due to their inability to perform their jobs (and that number was even lower in 2020 because of operational impacts of COVID-19).

Earth's Best Employer and Earth's Safest Place to Work

The fact is, the large team of thousands of people who lead operations at Amazon have always cared deeply for our hourly employees, and we're proud of the work environment we've created. We're also proud of the fact that Amazon is a company that does more than just create jobs for computer scientists and people with advanced degrees. We create jobs for people who never got that advantage.

Despite what we've accomplished, it's clear to me that we need a better vision for our employees' success. We have always wanted to be Earth's Most Customer-Centric Company. We won't change that. It's what got us here. But I am committing us to an addition. We are going to be Earth's Best Employer and Earth's Safest Place to Work.

In my upcoming role as Executive Chair, I'm going to focus on new initiatives. I'm an inventor. It's what I enjoy the most and what I do best. It's where I create the most value. I'm excited to work alongside the large team of passionate people we have in Ops and help invent in this arena of Earth's Best Employer and Earth's Safest Place to Work. On the

details, we at Amazon are always flexible, but on matters of vision we are stubborn and relentless. We have never failed when we set our minds to something, and we're not going to fail at this either.

We dive deep into safety issues. For example, about 40% of work-related injuries at Amazon are related to musculoskeletal disorders (MSDs), things like sprains or strains that can be caused by repetitive motions. MSDs are common in the type of work that we do and are more likely to occur during an employee's first six months. We need to invent solutions to reduce MSDs for new employees, many of whom might be working in a physical role for the first time.

One such program is WorkingWell – which we launched to 859,000 employees at 350 sites across North America and Europe in 2020 – where we coach small groups of employees on body mechanics, proactive wellness, and safety. In addition to reducing workplace injuries, these concepts have a positive impact on regular day-to-day activities outside work.

We're developing new automated staffing schedules that use sophisticated algorithms to rotate employees among jobs that use different muscle-tendon groups to decrease repetitive motion and help protect employees from MSD risks. This new technology is central to a job rotation program that we're rolling out throughout 2021.

Our increased attention to early MSD prevention is already achieving results. From 2019 to 2020, overall MSDs decreased by 32%, and MSDs resulting in time away from work decreased by more than half.

We employ 6,200 safety professionals at Amazon. They use the science of safety to solve complex problems and establish new industry best practices. In 2021, we'll invest more than $300 million into safety projects, including an initial $66 million to create technology that will help prevent collisions of forklifts and other types of industrial vehicles.

When we lead, others follow. Two and a half years ago, when we set a $15 minimum wage for our hourly employees, we did so because we wanted to lead on wages – not just run with the pack – and because we believed it was the right thing to do. A recent paper by economists at the University of California-Berkeley and Brandeis University analyzed the impact of our decision to raise our minimum starting pay to $15 per hour. Their assessment reflects what we've heard from employees, their families, and the communities they live in.

Our increase in starting wage boosted local economies across the country by benefiting not only our own employees but also other workers in the same community. The study showed that our pay raise resulted in a 4.7% increase in the average hourly wage among other employers in the same labor market.

And we're not done leading. If we want to be Earth's Best Employer, we shouldn't settle for 94% of employees saying they would recommend Amazon to a friend as a place to work. We have to aim for 100%. And we'll do that by continuing to lead on wages, on benefits, on

upskilling opportunities, and in other ways that we will figure out over time.

If any shareowners are concerned that Earth's Best Employer and Earth's Safest Place to Work might dilute our focus on Earth's Most Customer-Centric Company, let me set your mind at ease. Think of it this way. If we can operate two businesses as different as consumer ecommerce and AWS, and do both at the highest level, we can certainly do the same with these two vision statements. In fact, I'm confident they will reinforce each other.

The Climate Pledge

In an earlier draft of this letter, I started this section with arguments and examples designed to demonstrate that human-induced climate change is real. But, bluntly, I think we can stop saying that now. You don't have to say that photosynthesis is real, or make the case that gravity is real, or that water boils at 100 degrees Celsius at sea level. These things are simply true, as is the reality of climate change.

Not long ago, most people believed that it would be good to address climate change, but they also thought it would cost a lot and would threaten jobs, competitiveness, and economic growth. We now know better. Smart action on climate change will not only stop bad things from happening, it will also make our economy more efficient, help drive technological change, and reduce risks. Combined, these can lead to more and better jobs, healthier and happier children, more productive workers, and a more prosperous future. This doesn't mean it will be easy. It won't be. The coming decade will be decisive. The economy in 2030 will need to be vastly different from what it is today, and Amazon plans to be at the heart of the change. We launched The Climate Pledge together with Global Optimism in September 2019 because we wanted to help drive this positive revolution. We need to be part of a growing team of corporations that understand the imperatives and the opportunities of the 21st century.

Now, less than two years later, 53 companies representing almost every sector of the economy have signed The Climate Pledge. Signatories such as Best Buy, IBM, Infosys, Mercedes-Benz, Microsoft, Siemens, and Verizon have committed to achieve net-zero carbon in their worldwide businesses by 2040, 10 years ahead of the Paris Agreement. The Pledge also requires them to measure and report greenhouse gas emissions on a regular basis; implement decarbonization strategies through real business changes and innovations; and neutralize any remaining emissions with additional, quantifiable, real, permanent, and socially beneficial offsets. Credible, quality offsets are precious, and we should reserve them to compensate for economic activities where low-carbon alternatives don't exist.

The Climate Pledge signatories are making meaningful, tangible, and ambitious commitments. Uber has a goal of operating as a zero-emission platform in Canada, Europe, and the U.S. by 2030, and Henkel plans to source 100% of the electricity it uses for production from renewable sources. Amazon is making progress toward our own goal of 100% renewable energy by 2025, five years ahead of our initial 2030 target. Amazon is the

largest corporate buyer of renewable energy in the world. We have 62 utility-scale wind and solar projects and 125 solar rooftops on fulfillment and sort centers around the globe. These projects have the capacity to generate over 6.9 gigawatts and deliver more than 20 million megawatt-hours of energy annually.

Transportation is a major component of Amazon's business operations and the toughest part of our plan to meet net-zero carbon by 2040. To help rapidly accelerate the market for electric vehicle technology, and to help all companies transition to greener technologies, we invested more than $1 billion in Rivian – and ordered 100,000 electric delivery vans from the company. We've also partnered with Mahindra in India and Mercedes-Benz in Europe. These custom electric delivery vehicles from Rivian are already operational, and they first hit the road in Los Angeles this past February. Ten thousand new vehicles will be on the road as early as next year, and all 100,000 vehicles will be on the road by 2030 – saving millions of metric tons of carbon. A big reason we want companies to join The Climate Pledge is to signal to the marketplace that businesses should start inventing and developing new technologies that signatories need to make good on the Pledge. Our purchase of 100,000 Rivian electric vans is a perfect example.

To further accelerate investment in new technologies needed to build a zero-carbon economy, we introduced the Climate Pledge Fund last June. The investment program started with $2 billion to invest in visionary companies that aim to facilitate the transition to a low-carbon economy. Amazon has already announced investments in CarbonCure Technologies, Pachama, Redwood Materials, Rivian, Turntide Technologies, ZeroAvia, and Infinium – and these are just some of the innovative companies we hope will build the zero-carbon economy of the future.

I have also personally allocated $10 billion to provide grants to help catalyze the systemic change we will need in the coming decade. We'll be supporting leading scientists, activists, NGOs, environmental justice organizations, and others working to fight climate change and protect the natural world. Late last year, I made my first round of grants to 16 organizations working on innovative and needle-moving solutions. It's going to take collective action from big companies, small companies, nation states, global organizations, and individuals, and I'm excited to be part of this journey and optimistic that humanity can come together to solve this challenge.

Differentiation is Survival and the Universe Wants You to be Typical

This is my last annual shareholder letter as the CEO of Amazon, and I have one last thing of utmost importance I feel compelled to teach. I hope all Amazonians take it to heart.

Here is a passage from Richard Dawkins' (extraordinary) book The Blind Watchmaker. It's about a basic fact of biology.

“Staving off death is a thing that you have to work at. Left to itself – and that is what it is when it dies – the body tends to revert to a state of equilibrium with its environment. If you measure some quantity such as the temperature, the acidity, the water content or the electrical potential in a living body, you will typically find that it is markedly different from the corresponding measure in the surroundings. Our bodies, for instance, are usually hotter than our surroundings, and in cold climates they have to work hard to maintain the differential. When we die the work stops, the temperature differential starts to disappear, and we end up the same temperature as our surroundings. Not all animals work so hard to avoid coming into equilibrium with their surrounding temperature, but all animals do some comparable work. For instance, in a dry country, animals and plants work to maintain the fluid content of their cells, work against a natural tendency for water to flow from them into the dry outside world. If they fail they die. More generally, if living things didn’t work actively to prevent it, they would eventually merge into their surroundings, and cease to exist as autonomous beings. That is what happens when they die.”

While the passage is not intended as a metaphor, it’s nevertheless a fantastic one, and very relevant to Amazon. I would argue that it’s relevant to all companies and all institutions and to each of our individual lives too. In what ways does the world pull at you in an attempt to make you normal? How much work does it take to maintain your distinctiveness? To keep alive the thing or things that make you special?

I know a happily married couple who have a running joke in their relationship. Not infrequently, the husband looks at the wife with faux distress and says to her, “Can’t you just be normal?” They both smile and laugh, and of course the deep truth is that her distinctiveness is something he loves about her. But, at the same time, it’s also true that things would often be easier – take less energy – if we were a little more normal.

This phenomenon happens at all scale levels. Democracies are not normal. Tyranny is the historical norm. If we stopped doing all of the continuous hard work that is needed to maintain our distinctiveness in that regard, we would quickly come into equilibrium with tyranny.

We all know that distinctiveness – originality – is valuable. We are all taught to “be yourself.” What I’m really asking you to do is to embrace and be realistic about how much energy it takes to maintain that distinctiveness. The world wants you to be typical – in a thousand ways, it pulls at you. Don’t let it happen.

You have to pay a price for your distinctiveness, and it’s worth it. The fairy tale version of “be yourself” is that all the pain stops as soon as you allow your distinctiveness to shine. That version is misleading. Being yourself is worth it, but don’t expect it to be easy or free. You’ll have to put energy into it continuously.

The world will always try to make Amazon more typical – to bring us into equilibrium with our environment. It will take continuous effort, but we can and must be better than that.

* * *

As always, I attach our 1997 shareholder letter. It concluded with this: “We at Amazon.com are grateful to our customers for their business and trust, to each other for our hard work, and to our shareholders for their support and encouragement.” That hasn’t changed a bit. I want to especially thank Andy Jassy for agreeing to take on the CEO role. It’s a hard job with a lot of responsibility. Andy is brilliant and has the highest of high standards. I guarantee you that Andy won’t let the universe make us typical. He will muster the energy needed to keep alive in us what makes us special. That won’t be easy, but it is critical. I also predict it will be satisfying and oftentimes fun. Thank you, Andy.

To all of you: be kind, be original, create more than you consume, and never, never, never let the universe smooth you into your surroundings. It remains Day 1.

Sincerely,

Jeffrey P. Bezos
Founder and Chief Executive Officer
Amazon.com, Inc.

1997 LETTER TO SHAREHOLDERS
(Reprinted from the 1997 Annual Report)
To our shareholders:

Amazon.com passed many milestones in 1997: by year-end, we had served more than 1.5 million customers, yielding 838% revenue growth to $147.8 million, and extended our market leadership despite aggressive competitive entry.

But this is Day 1 for the Internet and, if we execute well, for Amazon.com. Today, online commerce saves customers money and precious time. Tomorrow, through personalization, online commerce will accelerate the very process of discovery. Amazon.com uses the Internet to create real value for its customers and, by doing so, hopes to create an enduring franchise, even in established and large markets.

We have a window of opportunity as larger players marshal the resources to pursue the online opportunity and as customers, new to purchasing online, are receptive to forming new relationships. The competitive landscape has continued to evolve at a fast pace. Many large players have moved online with credible offerings and have devoted substantial energy and resources to building awareness, traffic, and sales. Our goal is to move quickly to solidify and extend our current position while we begin to pursue the online commerce opportunities in other areas. We see substantial opportunity in the large markets we are targeting. This strategy is not without risk: it requires serious investment and crisp execution against established franchise leaders.

It's All About the Long Term

We believe that a fundamental measure of our success will be the shareholder value we create over the *long term*. This value will be a direct result of our ability to extend and solidify our current market leadership position. The stronger our market leadership, the more powerful our economic model. Market leadership can translate directly to higher revenue, higher profitability, greater capital velocity, and correspondingly stronger returns on invested capital.

Our decisions have consistently reflected this focus. We first measure ourselves in terms of the metrics most indicative of our market leadership: customer and revenue growth, the degree to which our customers continue to purchase from us on a repeat basis, and the strength of our brand. We have invested and will continue to invest aggressively to expand and leverage our customer base, brand, and infrastructure as we move to establish an enduring franchise.

Because of our emphasis on the long term, we may make decisions and weigh tradeoffs differently than some companies. Accordingly, we want to share with you our fundamental management and decision-making approach so that you, our shareholders, may confirm that it is consistent with your investment philosophy:

We will continue to focus relentlessly on our customers.

We will continue to make investment decisions in light of long-term market leadership considerations rather than short-term profitability considerations or short-term Wall Street reactions.

We will continue to measure our programs and the effectiveness of our investments analytically, to jettison those that do not provide acceptable returns, and to step up our investment in those that work best. We will continue to learn from both our successes and our failures.

We will make bold rather than timid investment decisions where we see a sufficient probability of gaining market leadership advantages. Some of these investments will pay off, others will not, and we will have learned another valuable lesson in either case.

When forced to choose between optimizing the appearance of our GAAP accounting and maximizing the present value of future cash flows, we'll take the cash flows.

We will share our strategic thought processes with you when we make bold choices (to the extent competitive pressures allow), so that you may evaluate for yourselves whether we are making rational long-term leadership investments.

We will work hard to spend wisely and maintain our lean culture. We understand the importance of continually reinforcing a cost-conscious culture, particularly in a business incurring net losses.

We will balance our focus on growth with emphasis on long-term profitability and capital management. At this stage, we choose to prioritize growth because we believe that scale is central to achieving the potential of our business model.

We will continue to focus on hiring and retaining versatile and talented employees, and continue to weight their compensation to stock options rather than cash. We know our success will be largely affected by our ability to attract and retain a motivated employee base, each of whom must think like, and therefore must actually be, an owner.

We aren't so bold as to claim that the above is the "right" investment philosophy, but it's ours, and we would be remiss if we weren't clear in the approach we have taken and will continue to take.

With this foundation, we would like to turn to a review of our business focus, our progress in 1997, and our outlook for the future.

Obsess Over Customers

From the beginning, our focus has been on offering our customers compelling value. We realized that the Web was, and still is, the World Wide Wait. Therefore, we set out to offer customers something they simply could not get any other way, and began serving them with books. We brought them much more selection than was possible in a physical store (our store would now occupy 6 football fields), and presented it in a useful, easy- to-search, and easy-to-browse format in a store open 365 days a year, 24 hours a day. We maintained a dogged focus on improving the shopping experience, and in 1997 substantially enhanced our store. We now offer customers gift certificates, 1-Click shopping℠, and vastly more reviews, content, browsing options, and recommendation features. We dramatically lowered prices, further increasing customer value. Word of mouth remains the most powerful customer acquisition tool we have, and we are grateful for the trust our customers have placed in us. Repeat purchases and word of mouth have combined to make Amazon.com the market leader in online bookselling.

By many measures, Amazon.com came a long way in 1997:

Sales grew from $15.7 million in 1996 to $147.8 million – an 838% increase.

Cumulative customer accounts grew from 180,000 to 1,510,000 – a 738% increase.

The percentage of orders from repeat customers grew from over 46% in the fourth quarter of 1996 to over 58% in the same period in 1997.

In terms of audience reach, per Media Metrix, our Web site went from a rank of 90th to within the top 20.

We established long-term relationships with many important strategic partners, including America Online, Yahoo!, Excite, Netscape, GeoCities, AltaVista, @Home, and Prodigy.

Infrastructure

During 1997, we worked hard to expand our business infrastructure to support these greatly increased traffic, sales, and service levels:

Amazon.com's employee base grew from 158 to 614, and we significantly strengthened our management team.

Distribution center capacity grew from 50,000 to 285,000 square feet, including a 70% expansion of our Seattle facilities and the launch of our second distribution center in Delaware in November.

Inventories rose to over 200,000 titles at year-end, enabling us to improve availability for our customers.

Our cash and investment balances at year-end were $125 million, thanks to our initial public offering in May 1997 and our $75 million loan, affording us substantial strategic flexibility.

Our Employees

The past year's success is the product of a talented, smart, hard-working group, and I take great pride in being a part of this team. Setting the bar high in our approach to hiring has been, and will continue to be, the single most important element of Amazon.com's success.

It's not easy to work here (when I interview people I tell them, "You can work long, hard, or smart, but at Amazon.com you can't choose two out of three"), but we are working to build something important, something that matters to our customers, something that we can all tell our grandchildren about. Such things aren't meant to be easy. We are incredibly fortunate to have this group of dedicated employees whose sacrifices and passion build Amazon.com.

Goals for 1998

We are still in the early stages of learning how to bring new value to our customers through Internet commerce and merchandising. Our goal remains to continue to solidify and extend our brand and customer base. This requires sustained investment in systems and infrastructure to support outstanding customer convenience, selection, and service while we grow. We are planning to add music to our product offering, and over time we believe that other products may be prudent investments. We also believe there are significant

opportunities to better serve our customers overseas, such as reducing delivery times and better tailoring the customer experience. To be certain, a big part of the challenge for us will lie not in finding new ways to expand our business, but in prioritizing our investments.

We now know vastly more about online commerce than when Amazon.com was founded, but we still have so much to learn. Though we are optimistic, we must remain vigilant and maintain a sense of urgency. The challenges and hurdles we will face to make our long-term vision for Amazon.com a reality are several: aggressive, capable, well-funded competition; considerable growth challenges and execution risk; the risks of product and geographic expansion; and the need for large continuing investments to meet an expanding market opportunity. However, as we've long said, online bookselling, and online commerce in general, should prove to be a very large market, and it's likely that a number of companies will see significant benefit. We feel good about what we've done, and even more excited about what we want to do.

1997 was indeed an incredible year. We at Amazon.com are grateful to our customers for their business and trust, to each other for our hard work, and to our shareholders for their support and encouragement.

Jeffrey P. Bezos
Founder and Chief Executive Officer
Amazon.com, Inc.

Related Tags

Shareholder letter

COEX-8.135

Amazon Prime member total reaches 142 million in U.S. with more shoppers opting in for a full year, data shows

marketwatch.com/story/amazon-prime-member-total-reaches-142-million-in-u-s-with-more-shoppers-opting-in-for-a-full-year-data-shows-11611073132

Tonya Garcia

Consumer Intelligence Research Partners LLP (CIRP) data shows that as of Dec. 31, 2020, more than half of Amazon.com Inc. AMZN, +0.98% Prime members (52%) had an annual membership, up from 49% just three months earlier.

Typically during the holidays, Amazon will see a spike in monthly Prime members as shoppers seek to take advantage of the program's perks, such as free shipping, without making a long-term commitment.

However the most recent holiday season was different.

"Since Amazon introduced a monthly pay option, Amazon has often seen a jump in monthly memberships in the December quarter," said Mike Levin, co-founder of CIRP, in a statement.

"For the first time in four years, the percentage of annual memberships increased in the holiday shopping quarter. In other words, in the December quarter new and renewing members took advantage of the lower annualized cost of a yearly membership, and with that made a longer commitment to Amazon Prime. These new members will be around well into 2021."

CIRP estimates that there are 142 million Prime members in the U.S. In fourth-quarter earnings announced in Jan. 2020, Amazon's Chief Executive Jeff Bezos said the company had reached 150 million members with "more people [joining] Prime this quarter than ever before."

The COVID-19 pandemic has driven many shoppers online, driving soaring e-commerce sales.

The increase in annual Prime members comes as eMarketer forecasts a continued surge in e-commerce sales around the world.

According to a January report, eMarketer estimates global e-commerce sales of $4.28 trillion in 2020, up 27.6% from 2019. Experts expect 14.3% growth in 2021 to $4.89 trillion.

"We anticipate that consumers will maintain many of their newfound digital behaviors in 2021," said Ethan Cramer-Flood, author of eMarketer's "Global E-Commerce Update 2021" report.

"However, with so much growth shifted forward into 2020—and with a full year of relatively normalized bricks-and-mortar commerce—2021's growth rate will decelerate to some degree, despite the enduring enthusiasm for e-commerce."

Still, Amazon is poised to take a hefty slice of that pie. CIRP said Amazon Prime members accounted for 68% of Amazon shoppers in the most recent quarterly earnings in Oct. 2020.

And in that quarter, Amazon set a sales record of $96.1 billion.

"After several quarters of slower growth, consumers joined Prime at a rate last seen more than four years ago," said Josh Lowitz, CIRP co-founder, in a statement.

"CIRP estimates that 30 million additional shoppers used an Amazon Prime membership in the year, as consumers naturally flocked to the free shipping and streaming media benefits as the pandemic kept them at home."

With more shoppers heading online to purchase goods including groceries, home furnishings and clothing, fulfillment has taken on increased importance. Amazon's delivery options and benefits stand out for many consumers.

Target Corp. TGT, +0.74%, for example, has talked up the bottom line benefits of giving customers the option to head to a store to pick up an online order, with 95% of the retailer's online sales during the holiday season fulfilled in using a bricks-and-mortar location.

And many retailers, like Bed Bath & Beyond Inc. BBBY, -4.27%, have added services like curbside pickup in recent months.

In order to compete, retail executives are turning more of their attention to the ways in which technology can keep them competitive by improving areas across the supply chain like inventory management and distribution centers.

“The pandemic has hyper-accelerated the digitization of retail. Retailers can no longer rely on brand, product and price alone,” said Omar Akilah, vice president of commerce at Blue Yonder, in a statement from its “Future of Fulfillment Research” report.

Blue Yonder is focused on the digital supply chain and multi-platform order fulfillment.

“With uncertainty still looming as we enter 2021, retail executives are needing to quickly re-orient customer-centric strategies to deliver speed and convenience.”

Amazon stock has gained 75.4% over the last year. The Amplify Online Retail ETF IBUY, +0.64% has soared 129.2%. And the benchmark S&P 500 index SPX, +1.05% is up 15.8% for the period.

COEX-8.136
RESTRICTED
FILED UNDER SEAL

COEX-8.137

S&P CAPITAL IQ
McGRAW HILL FINANCIAL

CONTENTS

CALL PARTICIPANTS 2
PRESENTATION 3
QUESTION AND ANSWER 6

Amazon.com Inc. NasdaqGS:AMZN

FQ2 2014 Earnings Call Transcripts

Thursday, July 24, 2014 9:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2014-			-FQ3 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.15)	(0.27)	NM	(0.08)	1.05	3.12
Revenue (mm)	19322.99	19340.00	▲0.09	20825.49	90830.83	109186.03

Currency: USD
Consensus as of Jul-23-2014 4:55 PM GMT

- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2013	0.05	(0.02)	NM
FQ3 2013	(0.09)	(0.09)	NM
FQ4 2013	0.71	0.51	▼(28.17 %)
FQ1 2014	0.24	0.23	▼(4.17 %)

COPYRIGHT © 2015, S&P CAPITAL IQ, A PART OF MCGRAW HILL FINANCIAL.

Call Participants

EXECUTIVES

Phil Hardin

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

ANALYSTS

A. Justin Post
BofA Merrill Lynch, Research Division

Benjamin A. Schachter
Macquarie Research

Brian J. Pitz
Jefferies LLC, Research Division

Brian Nowak
Susquehanna Financial Group, LLLP, Research Division

Carlos Kirjner
Sanford C. Bernstein & Co., LLC., Research Division

Colin Alan Sebastian
Robert W. Baird & Co. Incorporated, Research Division

Eric James Sheridan
UBS Investment Bank, Research Division

Gregory S. Melich
ISI Group Inc., Research Division

Heath P. Terry
Goldman Sachs Group Inc., Research Division

John R. Blackledge
Cowen and Company, LLC, Research Division

Kaizad Gotla
JP Morgan Chase & Co, Research Division

Mark May
Citigroup Inc, Research Division

Mark R. Miller
William Blair & Company L.L.C., Research Division

Mark S. Mahaney
RBC Capital Markets, LLC, Research Division

Neil A. Doshi
CRT Capital Group LLC, Research Division

Youssef H. Squali
Cantor Fitzgerald & Co., Research Division

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

Presentation

Operator

Thank you for standing by, everyone. Good day, and welcome to the Amazon.com Q2 2014 Financial Results Teleconference. [Operator Instructions] Also, today's call is being recorded. For opening remarks, I'll be turning this conference over to the Director of Investor Relations, Phil Hardin. Please go ahead, sir.

Phil Hardin

Hello, and welcome to our Q2 2014 financial results conference call. Joining us today is Tom Szkutak, our CFO. We will be available for questions after our prepared remarks.

The following discussion and responses to your questions reflect management's views as of today, July 24, 2014 only, and will include forward-looking statements. Actual results may differ materially. Additional information about factors that could potentially impact our financial results is included in today's press release and our filings with the SEC, including our most recent annual report on Form 10-K.

As you listen to today's conference call, we encourage you to have our press releases in front of you, which includes our financial results, as well as metrics and commentary on the quarter.

During this call, we will discuss certain non-GAAP financial measures. In our press release, slides accompanying this webcast and our filings with the SEC, each of which is posted on our IR website, you will find additional disclosures regarding these non-GAAP measures, including reconciliations of these measures with comparable GAAP measures.

Finally, unless otherwise stated, all comparisons in this call will be against our results for the comparable period of 2013.

Now I'll turn the call over to Tom.

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

Thanks, Phil. I'll begin with comments on our second quarter financial results. Trailing 12-month operating cash flow increased 18% to $5.33 billion. Trailing 12-month free cash flow increased to $1.04 billion. Trailing 12-month capital expenditures were $4.29 billion. The increase in capital expenditures reflects additional investments in support of continued business growth, consisting of additional capacity to support our fulfillment operations and investments in technology infrastructure, including Amazon Web Services.

Return on invested capital was 6%, up from 2%. ROIC is TTM free cash flow divided by average total assets minus current liabilities excluding the current portion of long-term debt over 5 quarter ends. The combination of common stock and stock-based awards outstanding was 480 million shares compared with 474 million 1 year ago. Worldwide revenue grew 23% to $19.34 billion or 22% excluding the $237 million favorable impact from year-over-year changes in foreign exchange rates. Media revenue increased to $4.84 billion, up 10% or 9% excluding foreign exchange.

EGM revenue increased to $13.28 billion, up 27% or 26% excluding foreign exchange. Worldwide EGM increased to 69% of worldwide sales, up from 66%. Worldwide paid unit growth was 23%. Active customer accounts exceeded 250 million. Worldwide active seller accounts were more than 2 million. Seller units represented 41% of paid units.

Now I'll discuss operating expenses, excluding stock-based compensation. Cost of sales was $13.4 billion or 69.3% of revenue compared with 71.4%. Fulfillment, marketing, tech and content and G&A combined was $5.54 billion or 28.6% of sales, up approximately 260 basis points year-over-year. Fulfillment was $2.28 billion or 11.8% of revenue compared with 11.2%. Tech and content was $2.02 billion or 10.4% of revenue compared with 9.1%. Marketing was $911 million or 4.7% of revenue compared with 4.1%.

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

Now I'll talk about our segment results. And consistent with prior periods, we do not allocate to segments our stock-based compensation or other operating expense line item. In the North America segment, revenue grew 26% to $12 billion. Media revenue grew 13% to $2.46 billion or 14% excluding foreign exchange. EGM revenue grew 29% to $8.37 billion, representing 70% of North America revenues, up from 68%. Other revenue grew 38% to $1.17 billion. North America segment operating income increased 7% to $438 million, a 3.7% operating margin.

In the international segment, revenue grew 18% to $7.34 billion. Excluding the $246 million year-over-year favorable foreign exchange impact, revenue growth was 14%. Media revenue grew 7% to $2.38 billion or 4% excluding foreign exchange, and EGM revenue grew 25% to $4.91 billion or 20% excluding foreign exchange. EGM now represents 67% of international revenues, up from 63%.

International segment operating loss was $34 million compared to 0 in the prior period. CSOI decreased 1% to $404 million or 2.1% of revenue, down approximately 50 basis points year-over-year. Excluding the favorable impact from foreign exchange rates, CSOI decreased 9%.

Unlike CSOI, our GAAP operating income or loss includes stock-based compensation expense and other operating expense. GAAP operating loss was $15 million compared to operating income of $79 million in the prior year period.

Our income tax expense was $94 million, and this includes approximately $90 million of discrete tax items primarily attributable to audit-related developments. GAAP net loss was $126 million or $0.27 per diluted share compared with a net loss of $7 million and $0.02 per diluted share.

Turning to the balance sheet. Cash and marketable securities increased $523 million year-over-year to $7.99 billion. Inventory increased 23% to $6.64 billion. And inventory turns were 9.1, down from 9.4 turns a year ago, as we expanded selection, improved in-stock levels and introduced new product categories. Accounts payable increased 16% to $10.46 billion and accounts payable days decreased to 71 from 73 in the prior year.

I'll conclude my portion of today's call with guidance. Incorporated into our guidance are the order trends that we've seen to date and what we believe today to be appropriately conservative assumptions. Our results are inherently unpredictable and may be materially affected by many factors, including a high level of uncertainty surrounding exchange rate fluctuations, as well as the global economy and consumer spending. It's not possible to accurately predict demand. And therefore, our actual results could differ materially from our guidance.

As we describe in more detail on our public filings, issues such as settling intercompany balances in foreign currencies amongst our subsidiaries, unfavorable resolution of legal matters and changes to our effective tax rates can all have material effect on guidance.

Our guidance further assumes that we don't conclude any additional business acquisitions, investments, restructurings or legal settlements; record any further revisions to the stock-based compensation estimates; and that foreign exchange rates remain approximately where they've been recently.

For Q3 2014, we expect net sales of between $19.7 billion and $21.5 billion or growth of between 15% and 26%. This guidance anticipates approximately 120 basis points of favorable impact from foreign exchange rates. GAAP operating loss to be between $810 million loss and a $410 million loss compared to a $25 million loss in the third quarter of 2013. This includes approximately $410 million for stock-based compensation and amortization of intangible assets. We anticipate consolidated segment operating income or loss, which excludes stock-based compensation and other operating expense, to be between a $400 million loss and 0 compared to $267 million of income in the third quarter of 2013.

We remain heads down focused on driving a better customer experience through price, selection and convenience. We believe putting customers first is the only reliable way to create lasting value for shareholders.

Thanks. And with that, Phil, let's move to questions.

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

Phil Hardin
Great. Thanks, Tom. Let's move on to the Q&A portion of the call. Operator, will you please remind our listeners how to initiate a question?

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

Question and Answer

Operator

[Operator Instructions] We'll hear first today from Carlos Kirjner with Bernstein.

Carlos Kirjner
Sanford C. Bernstein & Co., LLC., Research Division

Two, if I may. Tom, you mentioned in the past that China is an eye of investment. Can you say a little bit about what are the main drivers of investment there, whether it's marketing, pricing, fulfillment? And how do you decide on any given year how much you invest in China, just given the size of the potential market and opportunity? And secondly, we saw a material deceleration in the North America order revenues. Was this primarily driven by an AWS deceleration? And is the deceleration on meaningful contributor to the losses implied in your next quarter guidance?

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

Sure. I'll take the second part of the question first. Yes, North America other includes a number of things, including Amazon Web Services. Amazon Web Services is the largest part of North America other. As we talked about on the last call, we had very substantial price reductions for customers starting in the second quarter. They range from 28% to 51%, depending on the service, but AWS continues to grow very strongly. In Q2, we had usage growth close to 90% year-over-year for the quarter. So the team is doing a fantastic job, and we put in some price reductions that were very substantial that are saving customers hundreds of millions of dollars over the next several months, as we mentioned 90 days ago. But again, we love that business. It's doing great, and we're very pleased to have the opportunity to invest in it. The team is innovating very quickly. In fact, so far, year-to-date, they've released 250 significant service and features, and that's at a pace that's much, much faster than last year's pace, which was faster than the year before. So again, they're continuing to innovate on behalf of customers. And so we're investing, and so that's certainly impacting both the pricing decisions we've made and certainly impacting the guidance. Also, the large amount of CapEx and infrastructure for that business is certainly impacting the guidance, along with a number of other things across the business that we're investing in, but we're very pleased to do that. In terms of China, we'll continue to invest on behalf of customers there, obviously trying to make the experience even better for customers in terms of improved in-stock levels. We've spent -- certainly added a lot of fulfillment capacity over time in China, and we're doing a lot of interesting things to better serve customers in China. In terms of some of the other parts of your question, there's not much more I can add to that.

Operator

We'll hear next from Neil Doshi with CRT Capital.

Neil A. Doshi
CRT Capital Group LLC, Research Division

Tom, can you talk a little bit about the deceleration in the units? And then also, in terms of the third-party dollar, it looks like your year 2 trending around 40% for a while. It ticked up a little bit to 41%. So if we adjust for digital, how should that trend be looking?

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

Yes. In terms of unit growth, we had 23% unit growth year-over-year. It is down from last year's growth rate, but it's consistent with what we've seen recently, including last quarter. And in terms of the unit, the third-party units, so the potential of total units, you're right, that's 41% this quarter. It's up about 100 basis points, and we're not breaking out the digital versus physical on that. But again, very strong third-party growth. A number of factors, but certainly, FBA is helping third-party growth.

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

Operator

And we'll go next to Eric Sheridan with UBS.

Eric James Sheridan
UBS Investment Bank, Research Division

Looking through the expense lines, tech and content seemed to have an upward pressure in the quarter. Wanted to maybe get a little more granularity on what was driving that upward pressure and whether that's sort of a new run rate of expense as we saw in the first half of this year.

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

There's a number of things that are going into the tech and content line. But you're right, we're -- one of the ones that I just mentioned, we're investing in various parts of the business, but certainly for Amazon Web Services, that's both from an infrastructure standpoint to support the very fast usage growth that we're experiencing. Again, we have usage growth close to 90% year-over-year in the second quarter for Web Services. In addition to that, we've -- over the past year, we've added thousands of people in Web Services, so again, ramping that up. And then across a number of different other investment areas, we continue to add great technical resources to do the things we're doing in digital and many other parts of the company. So again, it's -- we have a lot of opportunities to invest in, as you can see from a lot of the releases that we've had over the past 12 months, and you're certainly seeing that reflected in our actual results as well.

Operator

And next from JPMorgan, we'll go to Douglas Anmuth.

Kaizad Gotla
JP Morgan Chase & Co, Research Division

This is Kaizad Gotla in for Doug. I'm wondering if you could just talk about the deceleration in your international EGM line. And then separately, now that you've had the Prime price increases in effect for about 3 months, wondering if you could just talk about any changes you've seen in sign-ups or conversions there.

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

Sure. In terms of international EGM, and this would really relate to total international growth as well, we saw 18% growth on a dollar basis, 14% growth on a local currency growth basis, which is down a little bit sequentially from what we saw in Q1. There's -- obviously, there's variability from quarter-to-quarter in each of the geographies that we operate in. One call out, which impacted certainly EGM and our total international growth rate is Japan. We saw on April 1 the consumption tax increase. Consumption tax was increased from 5% to 8%. Leading up to that, in the latter part of Q1, we certainly saw accelerated growth. And so that was reflected in the Q1 results. In Q2, we saw some corresponding softness in Q2 following that. Hard to know how much was related to consumption growth. But certainly, as you've probably read elsewhere that others are seeing that too, so it's not probably reflects the consumption tax increase. But if you take out Japan out of both Q1 and Q2, the growth rates on a local currency basis were very similar within approximately 100 basis points of each other. In terms of Prime, Prime subscribers are growing very nicely year-over-year. In fact, we added more Prime subscribers in Q2 of this year than in Q2 of last year. So we're very pleased, and customers are responding to continue to -- would continue to get new subscribers, as well as existing customers responding to the great value they're getting out of Prime.

Operator

And from Citi, we'll go to Mark May.

Mark May

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

Citigroup Inc, Research Division

Common sense -- based on sort of what you've talked about in the disclosures around the price, the amount of the price decreases, the common sense would suggest that all, if not most, of the CSOI margin decline that you posted in Q2 year-on-year is related to the AWS price changes. And common sense would also suggest that given the significant volume gains that you're seeing in that business that Q2 might be the most impacted quarter from that, yet the third quarter guidance suggested it's having an even greater impact on Q3. Just wondering if you could help us think through that. Is there some timing issue related to the impact of that? Or is there something else going on within the core retail business or maybe some other onetime items that might be impacting your Q3 outlook?

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

Sure. In terms of -- we're not quantifying the impact of the price changes on our Q2 and Q3. But it is fair to say that the impact -- it certainly did impact our Q2 results in a meaningful way, and that's reflecting the actual results that you're seeing. Another thing to keep in mind as you look out relating to AWS is we'll continue to invest in that business. And with the great, strong usage growth rates that we're seeing, we're also investing in CapEx and infrastructure to support that growth. So again, we're -- the team is doing a fantastic job in innovating on behalf of customers. And as I mentioned earlier, the new releases both from a service and feature perspective was about 250 year-to-date, which is at a pace that's much faster than we've seen over the last few years with very high mark, given all the innovation that's happened from that team in that space. So again, those are certainly things that are impacting Q3 guidance. There's a number of other things. When you look at Q3, keep in mind, if you look back over the last several years, we're getting ready for our Q4 seasonal quarter. And when that happens -- if you look back, certainly, you've seen our CSOI has been at the lowest point for the year during Q3, particularly during these high-growth years. And so we've added or announced that we are adding 6 net new fulfillment centers. And we've also announced that we'll have 15 or more sortation centers. And the sortation centers helps us get closer to customers, so that we can have faster delivery speed, as well as deliver on Sundays, which is a big deal for us in the U.S. So we're very pleased to be able to do that. On top of that, other investment areas that are certainly impacting our Q3 guidance is -- we like what we see on the content side. So video content, for example, we're ramping up the spend from Q2 to Q3 significantly, and so there will be also a significant growth year-over-year. Keep in mind, we have 2 types of content. We have license content. We also have original content. A lot of you have probably seen a lot of the announcements that we've greenlighted, a number of pilots. We're going to be in heavy production on those pilots during -- sorry, in those series that have been greenlit during Q3. We've also announced a number of pilots that will be in production on. And so that original content that's a portion of our total content will be over $100 million in Q3. Keep in mind that, just as a reminder, that we do not capitalize that portion of our content, of our original content. It's expenses incurred, so that's over $100 million in Q3. And again, that's ramped up considerably both on a sequential and on a year-over-year basis. Other areas that we're investing in, certainly, with the launch of some new devices more recently over the past couple of quarters between Fire phone and Fire TV and others, over time, we've invested in devices. So that's certainly an area we're investing in. We're investing in a lot of different areas, including geographic expansion. We talked about China on one of the earlier questions. But certainly, India, we're investing very heavily. We're seeing some very positive results there. The team is doing a fantastic job. We're also investing in other geographies as well, like Italy and Spain and others. So again, we're encouraged by the -- just the sheer magnitude of opportunities we have, and we're investing in those opportunities.

Operator

We'll move next to Brian Pitz with Jefferies.

Brian J. Pitz
Jefferies LLC, Research Division

First question on FBA. Any insights on the penetration of third-party sellers using FBA? Maybe you could comment just directionally, is the number trending up or down? And separately, it's been less than a week,

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

but can you comment on early feedback to Kindle Unlimited by customers and publishers? Do you expect this to be the model for digital book consumption in the future?

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

In terms of FBA, it's doing great. I can't provide any specific percent, but it's continued, really, since the time we've launched, continued to increase as a percentage of total third-party units. And so the service has been -- has done very well. We -- the team continues to work on making it even better on behalf of sellers and customers. In terms of Kindle Unlimited, it's very early, but we're extremely pleased with what we see. There's been a great reaction to it, and we're pleased to offer that to customers.

Operator

Moving next to Heath Terry with Goldman Sachs.

Heath P. Terry
Goldman Sachs Group Inc., Research Division

I was wondering, you mentioned that you are happy with the results that you're seeing from the video content. I was wondering if you could give us a sense of sort of how that manifests itself, whether it's more Prime subscribers, whether it's more consumption of downloadable video content within the ecosystem. And then, Tom, to the extent that you're talking about sort of AWS volume increases on a year-over-year basis, can you give us a sense of how that may have trended over the course of the quarter as your AWS customers were able to sort of adapt to the price reduction in March?

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

Sure. In terms of content, we've seen just more and more customers are streaming -- more and more Prime members are streaming free content. We're seeing through our pipeline, as customers join Prime, we're seeing that we have more and more customers taking free trials.and then converting those customers. Our great customers, they're -- in addition to streaming free content, they have great purchasing patterns, doing a lot of cross-shopping on physical products, as well as converting to paid digital video and other digital products as well. So we're very pleased with what we're seeing there. And if -- when you look at the service that we have today, it's improved dramatically over the past 12 to 24 months. And we really think it's a great service, and that's why we're investing in it. In terms of AWS, there's not much I can help you with on that. But again, just to reiterate, we saw very strong growth during Q2 and with usage growth rates close to 90% year-over-year for the quarter, and we're extremely happy with what we see there. And the team is doing a fantastic job to continue to innovate on behalf of customers.

Operator

We'll hear next from John Blackledge with Cowen & Company.

John R. Blackledge
Cowen and Company, LLC, Research Division

Just a couple of questions. First, on AWS, just wondering your take on the competitive environment, and public cloud has it intensified over the past 6 to 12 months? And just given the investments in AWS, how do you view AWS's competitive positioning? And then if you could just touch on the key drivers of EGM growth in North America. And are those the same drivers of growth internationally? Or are there different drivers on North America versus international?

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

In terms of AWS, there's not a lot -- in terms of I talk to -- longstanding practice of not talking about other companies and what they're doing in the environment. But the team is certainly used to operating

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

in a very competitive environment. They work hard to be able to afford lower prices for customers. That's something that is instilled in all the Amazon and something certainly that instilled at our Web Services team. And they're focused on what they do best, which is innovating on behalf of customers, operating these services at the highest quality levels. And they'll continue to work on getting more efficient, so that we can have great prices for customers. And so that's what the team is focused on, and they're doing a great job. In terms of EGM growth, both between North America and international, there's not a lot I can call out there. It has many different categories across many different geographies, many different ASINs both first party and third party. So it's hard to comment. The other thing I would call to attention is the comment I made earlier around international growth rates related to EGM, and that was the consumption tax increase in Japan that we saw a lead in. In Q1, we saw a very strong growth leading up to that point, and it softened after the rates went into effect. But other than that, there's not a lot to call out.

Operator

We'll now go to Macquarie's Ben Schachter.

Benjamin A. Schachter
Macquarie Research

When you mentioned that the AWS is growing 90% year-over-year, what exactly is growing 90%? Is it storage? Is it something else? And then on the phone itself, are there any key differences in how we should be thinking about that piece of hardware versus the other hardware you've done in the past, where Jeff has discussed the notion of essentially wanting to breakeven? And then just to follow up on that, how are you modeling the impact of the phone on the P&L in 3Q? Is it going to be more or less than the original content initiative?

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

In terms of AWS, it's really an aggregation of usage across all of our services year-over-year. Think of it as almost a proxy similar to unit growth on our retail business. It's a proxy to, say, how fast the physical volume is growing. And so that's what it's a proxy for. In terms of the phone, there's not a lot I can help you with on that. We're extremely pleased to get it in customers' hands. We think it's a premium product and it's also a great value to -- you get a 32-gigabyte phone, premium product, 1 year free subscription to Prime, along with all the other features that I'm sure you've read about. But -- so again, we're very pleased to get it to customers and start shipping, and customers have started to receive those today.

Operator

And from William Blair, we'll go to Mark Miller.

Mark R. Miller
William Blair & Company L.L.C., Research Division

Many investments, so I wonder, it looks like where you are getting a return is in the gross margin. If I take out AWS, it looks like you're up nearly 200 basis points. What are the drivers of that e-commerce margin increase? Are you seeing it primarily on the first-party margin expansion? And if so, why? And how much is coming from third-party unit increase?

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

Yes. We don't actually focus on total company gross margins because of the mix of the business. We focus more on operating profit and, obviously, ultimately, free cash flow dollars. But in terms of things that would be impacting COGS as a percent of revenue and that change to be helpful, you mentioned AWS is certainly having an impact there. Our third-party business continues to have an impact there. We have offsets, as we lower prices to customers, having an impact there. This mix of products, our various products and geographies has an impact on those results. So again, a large number of items that are impacting that.

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

Operator

And Justin Post with Bank of America Merrill Lynch has our next question.

A. Justin Post
BofA Merrill Lynch, Research Division

Tom, there might be a little bit of a disconnect. When we've seen prior investment cycles, such as distribution build outs or devices, with certainly the Kindle reader, we did see an impact on units and accelerating growth in some of the categories. This time around, you've been investing for a couple of years, and I guess we're not really seeing the acceleration that some are looking for. So maybe you could talk about what gives you confidence in investing in devices, like the Fire TV and the phone and all the content you're doing? And are you seeing some underlying signs that say activity is picking up? Maybe you could walk through that.

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

Sure. Just a couple of things to call out. One is when we look at our unit growth, you hear the 23% unit growth, keep in mind that there are parts of our business that are not included in that unit growth. So when we talk about investing in Web Services and the usage growing close to 90%, that number is not included in the 23%. So that's obviously a large investment area for us that we're excited about that is not included in that. The other is, think about the base of business that we have versus where we were just a few years ago. And so you've seen very strong growth on the base that we have, and we're excited to see that. And so those are the things. When we look at the opportunities that we're investing in -- in terms of video, you mentioned, we're seeing that certainly in the number of Prime members that are subscribing. And so that has some short-term impact but great long-term impact as we retain those Prime members. And as they start to do more cross-shopping over time, so it's more of a trailing -- we have a lot of investment in front of that demand, if you will. So those are some of the things that I would call out that maybe -- to try to be helpful.

Operator

We'll move now to Youssef Squali with Cantor Fitzgerald.

Youssef H. Squali
Cantor Fitzgerald & Co., Research Division

Going back to the $100 million spend on original content that you mentioned earlier, as the business -- as that part of the business grows, is there any reason to believe that the amount of spend on originals will go down? The assumption here is it will only go up. So is that $100 million a good level to work off of? And then going back to the Fire phone, just trying to understand the strategy around the product longer term. Is it, again, just to try to further build the Amazon ecosystem with all its benefits? Or do you think this is a -- this could be a self-funded business?

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

In terms of the original content, we're not giving guidance on the numbers going forward beyond Q3. We're very excited about what we see and the pilots that we had and the series we had. And so we're happy to greenlight the series that we've released -- that we've talked about in releases over the past few months. We're also happy -- you'll be seeing many new pilots, and so that's reflected in the over $100 million that I mentioned earlier. So we're extremely excited on behalf of customers to be able to do that. We think that's the right thing to do. But in terms of what we'd do in terms of spend beyond Q3, I can't comment on today. In terms of the Fire phone, we're very excited about it. You mentioned 2 different areas. One is can it exist on its own; and whether it's part of our family, if you will, to help drive other usage. And the answer is we certainly think it can be both. And so we think it could be a great product on its own. We're very excited to offer it to customers. It's very integrated into our -- certainly, our various video services -- our various digital services, including video and games in our app store and e-books and

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

certainly Prime music. So those are all very interesting things on behalf of customers. It's also a great way to do physical shopping as well. So again, it's certainly integrated into our business as well.

Operator

And Brian Nowak with SIG has our next question.

Brian Nowak
Susquehanna Financial Group, LLLP, Research Division

I have 2. The first one is around CPG, consumer packaged goods. I was wondering, Tom, can you talk to some learnings in CPG so far, what's working and what you think is still holding back faster CPG adoption? Do you think you need a same-day delivery offering at this point for CPG kind of given Google and given the traditional retailers push into that category? And then the second one, the close to 90% AWS usage growth, just help us understand a bit more, what did that number look like in 2013?

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

Yes. In terms of the usage growth, that business is growing very, very fast. Beyond data point, there's not a lot I can help you with. In terms of CPG, and this really relates to many of our categories, we're working on behalf of customers to provide fast delivery. It's something that we've improved on over the years and we're going to continue to work on. There's a number of different things we're working on. One of the things that I mentioned earlier in the call is certainly sortation centers. That's an attempt on our side, which we think we have in a small way -- and tested it, and we've seen that it's a way to get product to customers even faster. And so we're excited about that. It also helps us deliver on Sunday, which we think is great, too. So again, those are the things that we're working on, as well as others to help customers get product faster. We think that benefits CPG products as well as other products.

Operator

We'll move next to Mark Mahaney with RBC Capital Markets.

Mark S. Mahaney
RBC Capital Markets, LLC, Research Division

I wanted to follow up on that William Blair question about the gross margins, and only because I know you don't focus on it. There's a lot of mix factors that you correctly pointed out. But that's a record high gross margin for you, 30.7%, ever, and it's in the context of a quarter in which AWS clearly was -- came in because of the price cuts. And so there's something else that happened there that really caused that gross margin to gap up. Could you give us any color? I understand there are lot of puts and takes in there. But something must have happened that was unusual to have that kind of result with a weak -- or with a slowing down AWS contribution.

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

Yes. I apologize. Once again, we don't focus a lot on gross margin as a business. Obviously, individual product lines, we would look at gross margin. But across the business, we don't, for the very reason you mentioned. There's a large mix impact. You have a Web Services business, you have a third-party business, you have a retail business, you have categories within retail. There's a whole host of things that would impact that. And so that's why we don't focus on a total company basis. Certainly, on individual SKUs or ASINs as we call them, we certainly would look at it. Individual subcategories, we would certainly look at it internally. But from a total company perspective, given the mix effects that we think it's much more appropriate to look at operating profit and the free cash flow.

Operator

And from ISI Group, we'll go to Greg Melich.

Gregory S. Melich

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

ISI Group Inc., Research Division

Looked like revenue per active customer accelerated again this quarter, you got over 5%. It was running close to the 2% to 3% last year. Could you help us understand what's driving that, whether it's Prime particularly? Or any color on that? And when you gave the Prime numbers, the second quarter more sign-ups, whether that was a gross or a net number?

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

The Prime was a net number. So that's the net additions to total members. So again, we added net more Prime members in Q2 of this year versus Q2 last year, even with the price change. In terms of revenue per x customer, there's not a lot I can say there. The one thing -- a few things to think about: One is certainly Prime customers buy more than non-Prime customers, and we're seeing great growth on Prime. That certainly have an impact on that number. And certainly, there'd be other factors, too. Our Web Services business would be included in the numerator that you're talking about as well. And so those are factors you should be thinking about. But again, the biggest factor would certainly be -- in terms of looking at our retail business, Prime is becoming much more meaningful. And that's also why we think about how we make Prime better on behalf of those customers. We just like the long-term benefits that we see for those customers.

Operator

And our final question today will be from Colin Sebastian with Robert Baird & Co.

Colin Alan Sebastian
Robert W. Baird & Co. Incorporated, Research Division

One of your executives from the U.K. recently mentioned the company's goal of reaching 1 billion different products available for sale in the site. I wonder if there's an expansion in selection beyond what we've seen recently that could help accelerate growth. And related to that, are you still relatively agnostic in terms of the split between first- and third-party unit sales?

Thomas J. Szkutak
Former Chief Financial Officer and Senior Vice President

In terms of selection, I would say nothing's new here. We're going to continue to add a unique selection. That's something that we've been working extremely hard day in and day out over many years. We have a great team of people working on that and trying to make sure we get a vast selection. And so that's something that we're pleased about. In terms of the margins, they do approximate each other. Obviously, there's some differences. Some of the third party will be used products. So you shouldn't assume that a used product necessarily has the same contribution profit per unit as a new unit, things like that, but they're close approximates of those.

Phil Hardin

Thank you for joining us on the call today and for your questions. A replay will be available on our Investor Relations website at least until the end of the quarter. We appreciate your interest in Amazon.com, and look forward to talking with you again next quarter.

Operator
And again, that will conclude today's conference. Thank you, all, for joining us.

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

The information in the transcripts ("Content") are provided for internal business purposes and should not be used to assemble or create a database. The Content is based on collection and policies governing audio to text conversion for readable "Transcript" content and all accompanying derived products that is proprietary to Capital IQ and its Third Party Content Providers.
The provision of the Content is without any obligation on the part of Capital IQ, Inc. or its third party content providers to review such or any liability or responsibility arising out of your use thereof. Capital IQ does not guarantee or make any representation or warranty, either express or implied, as to the accuracy, validity, timeliness, completeness or continued availability of any Content and shall not be liable for any errors, delays, or actions taken in reliance on information. The Content is not intended to provide tax, legal, insurance or investment advice, and nothing in the Content should be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Capital IQ or any third party. In addition, the Content speaks only as of the date issued and is based on conference calls that may contain projections of other forward-looking statements. You should not rely on the Content as expressing Capital IQ's opinion or as representing current information. Capital IQ has not undertaken, and do not undertake any duty to update the Content or otherwise advise you of changes in the Content.
THE CONTENT IS PROVIDED "AS IS" AND "AS AVAILABLE" WITHOUT WARRANTY OF ANY KIND. USE OF THE CONTENT IS AT THE USERS OWN RISK. IN NO EVENT SHALL CAPITAL IQ BE LIABLE FOR ANY DECISION MADE OR ACTION OR INACTION TAKEN IN RELIANCE ON ANY CONTENT, INCLUDING THIRD-PARTY CONTENT. CAPITAL IQ FURTHER EXPLICITLY DISCLAIMS, ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. CAPITAL IQ, SUPPLIERS OF THIRD-PARTY CONTENT AND ANY OTHER THIRD PARTY WORKING WITH CAPITAL IQ SHALL NOT BE RESPONSIBLE OR LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY DAMAGES OR LOSS (INCLUDING DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL AND ANY AND ALL OTHER FORMS OF DAMAGES OR LOSSES REGARDLESS OF THE FORM OF THE ACTION OR THE BASIS OF THE CLAIM) CAUSED OR ALLEGED TO BE CAUSED IN CONNECTION WITH YOUR USE OF THE CONTENT WHETHER OR NOT FORESEEABLE, EVEN IF CAPITAL IQ OR ANY OF THE SUPPLIERS OF THIRD-PARTY CONTENT OR OTHER THIRD PARTIES WORKING WITH CAPITAL IQ IN CONNECTION WITH THE CONTENT HAS BEEN ADVISED OF THE POSSIBILITY OR LIKELIHOOD OF SUCH DAMAGES.
© 2015 Capital IQ, Inc.

Copyright © 2014, S&P Capital IQ, a part of McGraw Hill Financial.

COEX-8.138

Apple confirms it bought podcast curation app Scout FM earlier this year

engadget.com/apple-reportedly-bought-the-topic-based-podcast-app-scout-fm-084109915.html

Steve Dent

In this article: acquisition, podcasts, curation, stations, app, Scout FM, Apple, news, entertainment

David Gray / reuters

Apple has purchased Scout FM, an app that makes it easy to find podcasts tailored to your tastes, according to *Bloomberg*. Rather than just letting you choose individual podcasts, Scout FM curates them based on your listening history. Much like YouTube or TikTok, its AI

algorithms adjust to your preferences over time, removing things you tend to skip.

Apple confirmed the acquisition, which reportedly happened earlier this year. The app used to be available on iOS (including CarPlay), Android and Alexa, but Apple shut it down on all platforms shortly after the deal was made.

Podcasts have always been popular on Apple devices, and it has had a dedicated app since 2012. Apple has also recently started develop and purchase its own exclusive podcasts to better compete with Spotify, which recently bought the exclusive rights to a show from popular comedian and radio personality Joe Rogan.

Apple's Podcast app works mostly on an *à la carte* basis, where you manually pick, subscribe and listen to podcasts. With the acquisition, Apple may introduce features that can surface and autoplay content relevant to your tastes. That would make for a more hands-off approach and allow you to discover content you might not otherwise see — much like Apple Music can now do.

All products recommended by Engadget are selected by our editorial team, independent of our parent company. Some of our stories include affiliate links. If you buy something through one of these links, we may earn an affiliate commission.

COEX-8.139

U.S. Podcast Ad Revenues Grew 19% YoY in 2020; set to exceed $1B this year and $2B by 2023

iab. iab.com/news/us-podcast-ad-revenues-grew-19-yoy-in-2020-set-to-exceed-1b-this-year-and-2b-by-2023/

May 12, 2021

Rising adoption of Podcasting for upper funnel brand-building

NEW YORK – May 12, 2021 — According to IAB's U.S. Podcast Advertising Revenue Study, prepared by PwC (PricewaterhouseCoopers) and released at the IAB 2021 Podcast Upfront, Podcast advertising will grow as much in the next two years as it did in the past decade.

Driven by a particularly strong fourth quarter (+37% YoY), Podcast advertising revenues climbed to $842 million in 2020, up from $708 million in the year prior.

"Podcasting will grow in the next two years by leaps and bounds," said Eric John, Vice President, IAB Media Center. "Podcast listeners have shown that—even when working from home—podcasts are a preferred medium. Advertisers are benefiting from new technologies developed to serve these marketplaces, to make podcast advertising more dynamic and measurable than ever before."

Messaging agility matters

Podcast publishers were well-positioned for the quick pivot, with the leading audio platforms steadily investing in new content and buyer-friendly ad tech. In particular, messaging agility, enabled by dynamic ad insertion, made Podcasting especially attractive in an unpredictable year. Marketers valued the ability to quickly switch out messaging as-needed: dynamically-inserted ads, which enable ad placement at the point of listener download, increased share of revenue from 48% to 67% year over year. Announcer-read / pre-produced ads, which also put more control in buyer's hands, increased share from 27% to 35%. Host-read continues to represent over half of revenue by ad type, which illustrates buyer's desire to tap the direct, influential relationship creators have with their listeners.

Perhaps the most important shift is that brand advertising (45% of 2020 revenue) is approaching parity with direct response (51% of 2020 revenue). Bigger brands are discovering that Podcast advertising can work across the sales funnel.

Additional highlights:

- At 76%, mid-roll spot placements continued to account for three-fourths (76%) of revenues.

- Half of Podcast ads lasted longer than 30 seconds in length. Seller Perspective: Longer ads allow for creative storytelling
- News continued to be the top content genre for Podcast advertisers (22% market share). Seller Perspective: Advertisers should be leaning-in to News
- Direct-To-Consumer brands maintained the top advertiser category market share (19%), while Pharmaceuticals more than doubled in share YoY (9%). Seller Perspective: Bigger brands are buying in

“The big takeaway from consumer behavior pre, during, and post pandemic is that podcasting has tremendous growth ahead. Consumers love listening and will integrate it into their lives wherever it fits. Advertisers love the flexibility to adjust their messaging on the fly. And most importantly, brands are continuing to shift to podcasting simply because it works: when they run an ad, the cash register rings,” said John.

For the IAB Full-Year 2020 U.S. Podcast Advertising Revenue Report, click here.

Methodology
As in prior years, the quantitative, online annual survey was sent to leading Podcast industry players in mid-March to understand 2020 podcast advertising revenues and trends, as well as forecast revenue growth for the next 3 years. This coincided with a Podcast advertising market-sizing to deliver a reasonable estimate of the market in the United States, inclusive of non-survey participating companies.

About PwC
As business, accounting, and tax advisors to many of the world’s leading technology, media, and telecommunications (TMT) companies, PwC (www.pwc.com/us/tmt) has an insider’s view of trends and developments driving the industry. With approximately 1,200 practitioners serving TMT clients in the United States, PwC is deeply committed to providing clients with industry experience and resources. In recent years, our work in TMT has included helping our clients to develop strategies to leverage digital technology, identifying new sources of financing, and marketplace positioning in industries characterized by consolidation and transformation. Our experience reaches across all geographies and segments, including broadband, wireless, film, television, music, publishing, advertising, gaming, sports, theme parks, computers and networking, software and technology services. With thousands of practitioners around the world, we’re always close at hand to provide deep industry knowledge and resources

About IAB
The Interactive Advertising Bureau empowers the media and marketing industries to thrive in the digital economy. Its membership comprises more than 650 leading media companies, brands, and the technology firms responsible for selling, delivering, and optimizing digital ad marketing campaigns.The trade group fields critical research on interactive advertising, while also educating brands, agencies, and the wider business community on the importance of digital marketing. In affiliation with the IAB Tech Lab, IAB develops technical standards and

solutions. IAB is committed to professional development and elevating the knowledge, skills, expertise, and diversity of the workforce across the industry. Through the work of its public policy office in Washington, D.C., the trade association advocates for its members and promotes the value of the interactive advertising industry to legislators and policymakers. Founded in 1996, IAB is headquartered in New York City.

IAB Media Contacts
Kate Tumino / Brittany Tibaldi
212-896-1252 / 347-487-6794
 /

Previous Chapter
Connected TV is the Driving Force in 2020 Digit...
Next Chapter
IAB Tech Lab Announces New Board Members And In...

COEX-8.140

COEX-
8.140

Spotify

Get Premium free for 1 month

Only $9.99 after. Cancel anytime.

GET STARTED

VIEW PLANS

Terms and conditions apply. 1 month free not available for users who have already tried Premium.

Why go Premium?

Download music.

Listen anywhere.

No ad interruptions.

Enjoy nonstop music.

COEX-
8.140

Play any song.

Even on mobile.

Unlimited skips.

Just hit next.

Pick your Premium

Listen without limits on your phone, speaker, and other devices.

1 month free

Individual

$9.99/month after offer period

1 account

- ✓ Listen to music ad-free
- ✓ Play anywhere - even offline
- ✓ On-demand playback

GET STARTED

Terms and conditions apply. 1 month free not available for users who have already tried Premium.

1 month free

Duo

$12.99/month after offer period

2 accounts

- ✓ 2 Premium accounts for a couple under one roof
- ✓ Duo Mix: a playlist for two, regularly updated with music you both enjoy
- ✓ Ad-free music listening, play offline, on-demand playback

GET STARTED

Terms and conditions apply. 1 month free not available for users who have already tried Premium.

1 month free

Family

$15.99/month after offer period

6 accounts

- ✓ 6 Premium accounts for family members living under one roof
- ✓ Family Mix: a playlist for your family, regularly updated with music you all enjoy
- ✓ Block explicit music
- ✓ Ad-free music listening, play offline, on-demand playback
- ✓ Spotify Kids: a separate app made just for kids

GET STARTED

Terms and conditions apply. 1 month free not available for users who have already tried Premium.

1 month free

Student

$4.99/month after offer period

1 account

- ✓ Hulu (ad-supported) plan
- ✓ SHOWTIME
- ✓ Listen to music ad-free
- ✓ Play anywhere - even offline
- ✓ On-demand playback

GET STARTED

Offer currently includes access to Hulu (ad-supported) plan and SHOWTIME Streaming Service, subject to eligibility. Available only to students at an accredited higher education institution. 1 month free only open to higher education students who haven't already tried Premium. Terms and conditions apply.

Jobs

For the Record

COMMUNITIES

For Artists

Developers

Advertising

Investors

Vendors

USEFUL LINKS

Support

Web Player

Free Mobile App

USA

Legal Privacy Center Privacy Policy Cookies About Ads Additional CA Privacy Disclosures

© 2021 Spotify AB

COEX-8.141

Amazon Music Unlimited FAQ

amazon.com/b

Skip to main content
Back to: Amazon Music Unlimited | Prime Music | Single Device Plan | Family Plan | Amazon Music Unlimited for Students

What is Amazon Music Unlimited?

Amazon Music Unlimited is a premium music subscription service featuring 75 million songs and thousands of expert-programmed playlists and stations. With Amazon Music Unlimited, you can listen to any song, anytime, anywhere, on all your devices – smartphone, tablet, PC/Mac, Fire TV, and Alexa-enabled devices like Amazon Echo. You'll never hear or see an ad, and of course you can download songs or playlists for offline listening. Amazon Music Unlimited gets to know you, personalizing your recommendations based, on your listening habits, from a catalog of 75 million songs. Whether you're after the perfect dinner-party playlist, an all-weekend listening session with the entire Beatles catalog, the latest hits from Bruno Mars, or recommendations for new indie music to discover, Amazon Music Unlimited has it all. As a Prime member, you can join Amazon Music Unlimited for $7.99/month for a monthly subscription or $79/year for an annual subscription. Non-Prime customers pay $9.99/month.

What is the difference between Prime Music and Amazon Music Unlimited?

Prime Music is included with your Prime membership at no additional cost. It features 2 million songs and more than a thousand playlists and stations programmed by Amazon's music experts. On Prime Music, you'll find the perfect soundtrack for your backyard BBQ, your morning run, or your evening study session. Play music on all your favorite devices and download to play offline.

With Amazon Music Unlimited, you get all of the great features and functionality of Prime Music…and a lot more. Amazon Music Unlimited offers 75 million songs and thousands of expert-programmed playlists and stations, including the hottest new releases from today's most popular artists. Amazon Music Unlimited's vast catalog allows you to dig deep into the vaults of your favorite artists, enjoy the latest and greatest hits, and explore new genres and styles. Prime members can join Amazon Music Unlimited for only $7.99/month for a monthly subscription or $79/year for an annual subscription. Non-Prime customers pay $9.99/month.

Do I need to be a Prime member or an Amazon Music Unlimited subscriber to listen to music from Amazon on my Echo?

Customers in the US who do not yet have a Prime membership or a subscription to Amazon Music Unlimited are able to listen to an ad-supported selection of top playlists and stations on compatible Alexa-enabled devices with Amazon Music, for free.

Who may be part of a Family Plan?

Family members invited by email must be at least 13 years old and have a standard Amazon account in order to join your Family Plan. Please note they will be able to make purchases on Amazon with the payment method used for your subscription.

Are Family Plan accounts shared?

Accounts are not shared and there is no common family profile. Each family member has an Amazon account with personalized recommendations.

Who pays for the Family Plan?

The person who signs up for the Family Plan is the subscriber and pays $14.99/month or $149/year (available to Prime members only) using a payment method like a credit or debit card.

Will we each have our own music libraries and personalized recommendations in a Family Plan? Everyone in our family has different musical tastes and interests.

Yes. You'll see all of your own music, library, playlists, and personalized recommendations. Each family member (up to six) has the same functionality as an Individual Plan subscription.

How many devices can play music at the same time with Family Plan?

You and your family can stream music on up to 6 devices at the same time.

With the Family Plan, do our shared home devices--for example, the Echo in the kitchen and the Dot in living room--each need to be associated with a different family member to play at the same time?

No, those can be associated with one family member’s account and you will still be able to stream music on up to 6 devices as the same time.

What is the Single Device plan?

We know how important music is to Amazon Echo and Fire TV owners, so we created a special subscription plan just for them. For $3.99/month, listen to Amazon Music Unlimited on a single Echo, Echo Dot, Echo Show, Echo Look, Amazon Tap, or Fire TV. Amazon Music Unlimited has a catalog of 75 million songs, so now you can ask Alexa to play just about any song or artist. Think of Echo plus Amazon Music Unlimited as the ultimate personalized jukebox, with Alexa as the DJ. To start a free trial on your Echo, just ask, "Alexa, try Amazon Music Unlimited." To sign up on Fire TV, open the Amazon Music app on your Fire TV device and join on the Settings page.

Do I need the Single Device plan to listen on my Echo?

No. All Amazon Music Unlimited subscription plans work on Amazon Echo and Fire TV devices. So does Prime Music. The Echo Plan is a special, low-cost subscription plan designed for Amazon Echo and Fire TV owners who want to listen to Amazon Music Unlimited on a single device but aren't interested in listening on other devices like smartphones, tablets, computers or multiple Amazon Echo or Fire TV devices.

I have multiple Echo devices. With the Echo plan, can I listen to Amazon Music Unlimited on all of them?

The Echo Plan allows you to listen to Amazon Music Unlimited on a single Amazon Echo, Echo Show, Echo Look, Echo Dot, Echo Spot, Echo Plus, or Amazon Tap for $3.99/month. It can't be used on multiple Echo devices. To listen to Amazon Music Unlimited on multiple devices (like your smartphone, tablet, PC/Mac, and Fire TV), you will have to upgrade to the Individual or Family plan.

What is Amazon Music Unlimited for Students?

Amazon Music Unlimited for Students is a streaming music subscription, discounted for students that are currently enrolled in a degree-granting college or university. To verify eligibility, all customers must validate student status through a third party validation service, SheerID.

How do I qualify for Amazon Music Unlimited for Students?

If you’re a student currently enrolled in a degree-granting college or university, you can start the registration process for Amazon Music Unlimited for Students here.

As part of the subscription process, you are asked to provide verification of enrollment. Verification is confirmed with third-party vendor, SheerID. If your student status can’t be automatically verified, you’ll be asked to manually upload enrollment documentation. You must provide one of the following:

- Official Enrollment Letter from your academic institution (acceptance letters will not be approved)
- Class schedule for the current academic term
- Registration receipt or tuition receipt
- Transcript that shows classes currently in progress
- Other school issued document that displays your first/last name, an issue date from the current term or within the last three months

If your school is not covered by SheerID, you will have the opportunity to request to add it. Some technical and vocational schools may not qualify for the Amazon Music Unlimited for Students discount.

Once eligibility is confirmed, you will have access to Amazon Music Unlimited. You can use the Student discount for a total of four years with concurrent student enrollment.

If I am already a Prime Student member, do I need to verify my eligibility for Amazon Music Unlimited for Students?

Yes, Amazon Music Unlimited has a different student screening process than what is used for Prime Student.

If I already am an Amazon Music Unlimited subscriber and I am eligible for the Student discount, how do I switch?

You can verify eligibility by visiting your Amazon Music Settings, and selecting the Student discount. This will prompt the SheerID verification process.

Which Amazon Music Unlimited plan is right for me?

If you want to listen to Amazon Music Unlimited on all your devices – smartphone, tablet, PC/Mac, tablet, Fire TV, and Amazon Echo – select the Individual Plan.

Families can benefit from great savings with the Family Plan. Up to 6 family members can listen, all at the same time. Get all the benefits of the Individual Plan with personalized recommendations, music and playlists for all.

If you only want to listen to Amazon Music Unlimited on a single Amazon Echo or Fire TV, choose the Single Device plan for $3.99/month. You can always upgrade to the Individual Plan later if you want to listen on more than a single device. Just ask, "Alexa, upgrade my Amazon Music Unlimited subscription," or visit Your Amazon Music Settings.

If you're a student currently enrolled in a degree-granting college or university, you may qualify for Amazon Music Unlimited for Students - which offers all the music and features of the individual plan for only $4.99/month.

What are Alexa voice controls?

Alexa voice controls are the ways you can ask Alexa to play music. If you've listened to music on an Echo, Echo Dot, Echo Show, Echo Look, or Amazon Tap, you're already familiar with Alexa voice controls like, "Alexa, play Adele," or, "Alexa, play jazz music."

Amazon Music has recently introduced many new and innovative Alexa voice controls to make asking for music more natural and fun than ever. Here are a few examples:

- Want to hear the latest song or album by your favorite artist but don't know the title? Try, "Alexa, play the new song by Bruno Mars," or, "Alexa, play the latest album by Norah Jones."
- Have words to a song stuck in your head but can't remember the name of the song? Just say a few words and Alexa will play it for you. Try, "Alexa, play the song that goes 'I'll Be Your Lifeline Tonight.'"
- Want to re-live the music from your college days? Try, "Alexa, play the most popular rock from the '90s."
- Feeling down and need a pick-me-up? Try, "Alexa play happy R&B music."
- Want to listen to early catalog from a favorite artist? Try, "Alexa, play Van Halen from the '70s."
- Having friends over? Try, "Alexa, play music for a dinner party."
- Want to be surprised? Try, "Alexa, play the Song of the Day."

Is Prime Music going away?

No, Prime Music is not going away. In fact, it's better than ever, with a catalog of 2 million songs and more than a thousand playlists and stations programmed by Amazon's music experts. And of course it's still included with your Prime membership at no additional cost. Learn more about Prime Music.

iTunes Billing: How do I manage or update my Amazon Music Unlimited Plan purchased in the Amazon Music app on an Apple iPhone or iPad (iOS) Device?

If you purchased Amazon Music Unlimited through the Amazon Music app on an Apple iPhone or iPad (iOS) device, your subscription was created through your Apple iTunes account. Amazon cannot cancel, manage, update payment methods, or offer refunds for subscriptions purchased through Apple.

Instead, please use your Apple iPhone or iPad (iOS) device to update your payment method or cancel your Amazon Music Unlimited subscription. Learn more from Apple about canceling your auto-renewal through your iOS device or managing your iTunes Account information at support.apple.com. If you choose to cancel, your music subscription will continue until the end of your current billing cycle.

iTunes Billing: Which plans can be purchased through an Apple iPhone or iPad (in app purchase)?

Only the Individual Plan is available through iTunes (in app payment). Special offers, discounts and promotions are not available for Amazon Music Unlimited subscriptions purchased through an Apple device.

- Conditions of Use
- Privacy Notice
- Interest-Based Ads

© 1996-2021, Amazon.com, Inc. or its affiliates

Terms and Conditions

This 90-day free trial offer of a monthly Amazon Music Unlimited Individual Plan is available only to new subscribers to Amazon Music Unlimited who purchase an eligible item shipped and sold by www.amazon.com, sign up for an eligible Amazon subscription (e.g. Prime, Kindle Unlimited, Prime Video Channel), or register an eligible device in the Alexa app. You will receive an e-mail from Amazon with instructions on how to redeem this offer. Offer must be redeemed within 30 days of receiving email. After the promotional trial, your subscription will automatically continue at the monthly price of $9.99 ($7.99 for Prime members), until you cancel. Digital content and services may only be available to customers located in the U.S. and are subject to the terms and conditions of Amazon.com Services LLC. Offer limited to one per customer and account. Amazon reserves the right to modify or cancel the offer at any time. Offer is non-transferable and may not be resold. If you violate any of these terms, the offer will be invalid. If any of the products or content related to this offer are returned, your refund will equal the amount you paid for the product or content, subject to applicable refund policies.

Stream millions of songs

Advertising
Find, attract, and engage customers

Cloud storage from Amazon

Score deals on fashion brands

Books, art & collectibles

Audiobook Publishing Made Easy

Actionable Analytics for the Web

Sell on Amazon
Start a Selling Account

Amazon Business
Everything For Your Business

Amazon Fresh
Groceries & More Right To Your Door

AmazonGlobal
Ship Orders Internationally

Home Services
Experienced Pros Happiness Guarantee

Amazon Ignite
Sell your original Digital Educational Resources

Amazon Web Services
Scalable Cloud Computing Services

Audible
Listen to Books & Original Audio Performances

Book Depository
Books With Free Delivery Worldwide

Box Office Mojo
Find Movie Box Office Data

ComiXology
Thousands of Digital Comics

DPReview
Digital Photography

East Dane
Designer Men's Fashion

Fabric
Sewing, Quilting & Knitting

Goodreads
Book reviews & recommendations

IMDb
Movies, TV & Celebrities

IMDbPro
Get Info Entertainment Professionals Need

Kindle Direct Publishing
Indie Digital & Print Publishing Made Easy

Amazon Photos
Unlimited Photo Storage Free With Prime

Prime Video Direct
Video Distribution Made Easy

Shopbop
Designer Fashion Brands

Amazon Warehouse
Great Deals on Quality Used Products

Whole Foods Market
America's Healthiest Grocery Store

Woot!
Deals and Shenanigans

Zappos
Shoes & Clothing

Ring
Smart Home Security Systems

eero WiFi
Stream 4K Video in Every Room

Blink
Smart Security for Every Home

Neighbors App
Real-Time Crime & Safety Alerts

Amazon Subscription Boxes
Top subscription boxes – right to your door

PillPack
Pharmacy Simplified

Amazon Renewed
Like-new products you can trust

Amazon Second Chance
Pass it on, trade it in, give it a second life

Conditions of Use Privacy Notice Interest-Based Ads © 1996-2021, Amazon.com, Inc. or its affiliates

COEX-8.142

COEX-
8.142

pandora

Find artists, songs, podcasts and more

Vi

Choose how you want to listen.

Pandora
Free

Sign Up For Free

- ✓ Personalized stations
- ✓ Search and play what you want *
- ✓ Enjoy your favorite podcasts
- ✓ Unlimited skips *
- Offline listening
- Make and share playlists

* Unlock by viewing an ad

Pandora Plus
$4.99 / month

Get 30 Days Free

- ✓ Ad-free personalized stations
- ✓ Search and play what you want *
- ✓ Enjoy your favorite podcasts
- ✓ Unlimited skips
- ✓ Offline listening
- Make and share playlists

* Unlock by viewing an ad

Pandora Premium
$9.99 / month

Get 60 Days Free

- ✓ Ad-free personalized music
- ✓ Search and play what you want
- ✓ Enjoy your favorite podcasts
- ✓ Unlimited skips
- ✓ Unlimited offline listening
- ✓ Make and share playlists

DISCOUNTED PREMIUM PLANS

FAMILY | STUDENT | MILITARY

Skips limited by certain licensing restrictions. Subscription automatically renews after trial or current Access Period unless canceled in advance. Subscription Terms and Offer Terms apply.

COEX-
8.142

pandora

Find artists, songs, podcasts and more

Vi

A hand-curated listening experience that's uniquely yours.

The most extensive analysis of music ever undertaken.

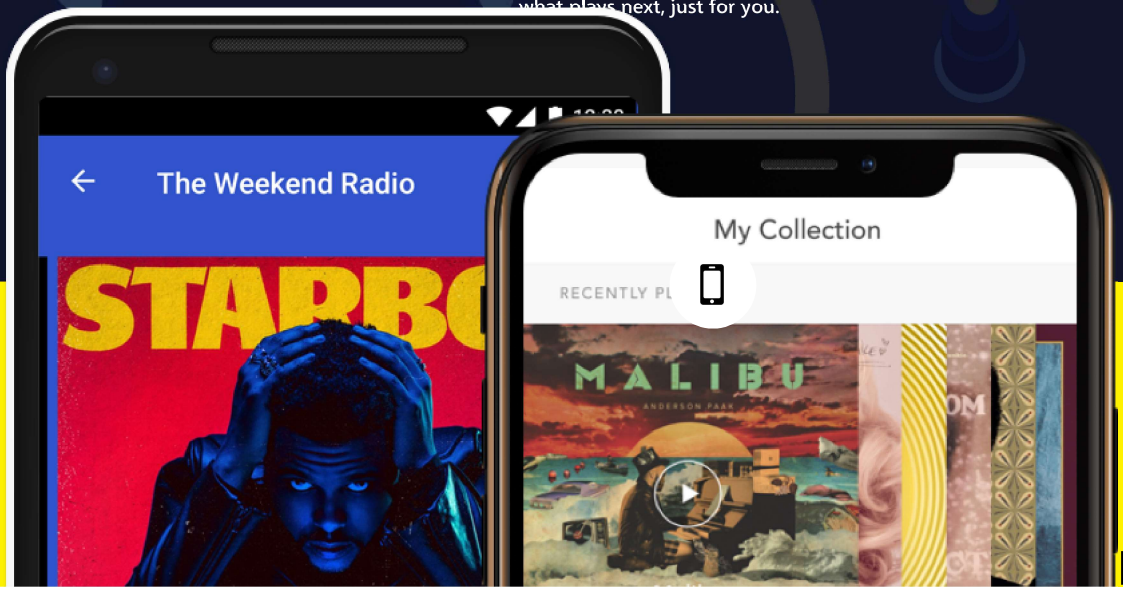
Pandora started with the **Music Genome Project**®, where our music experts analyzed every

Your Thumbs take it to the next level.

Pandora is powered by this analysis in combination with your Thumbs Up and Thumbs Down. That's how we personalize what plays next, just for you.

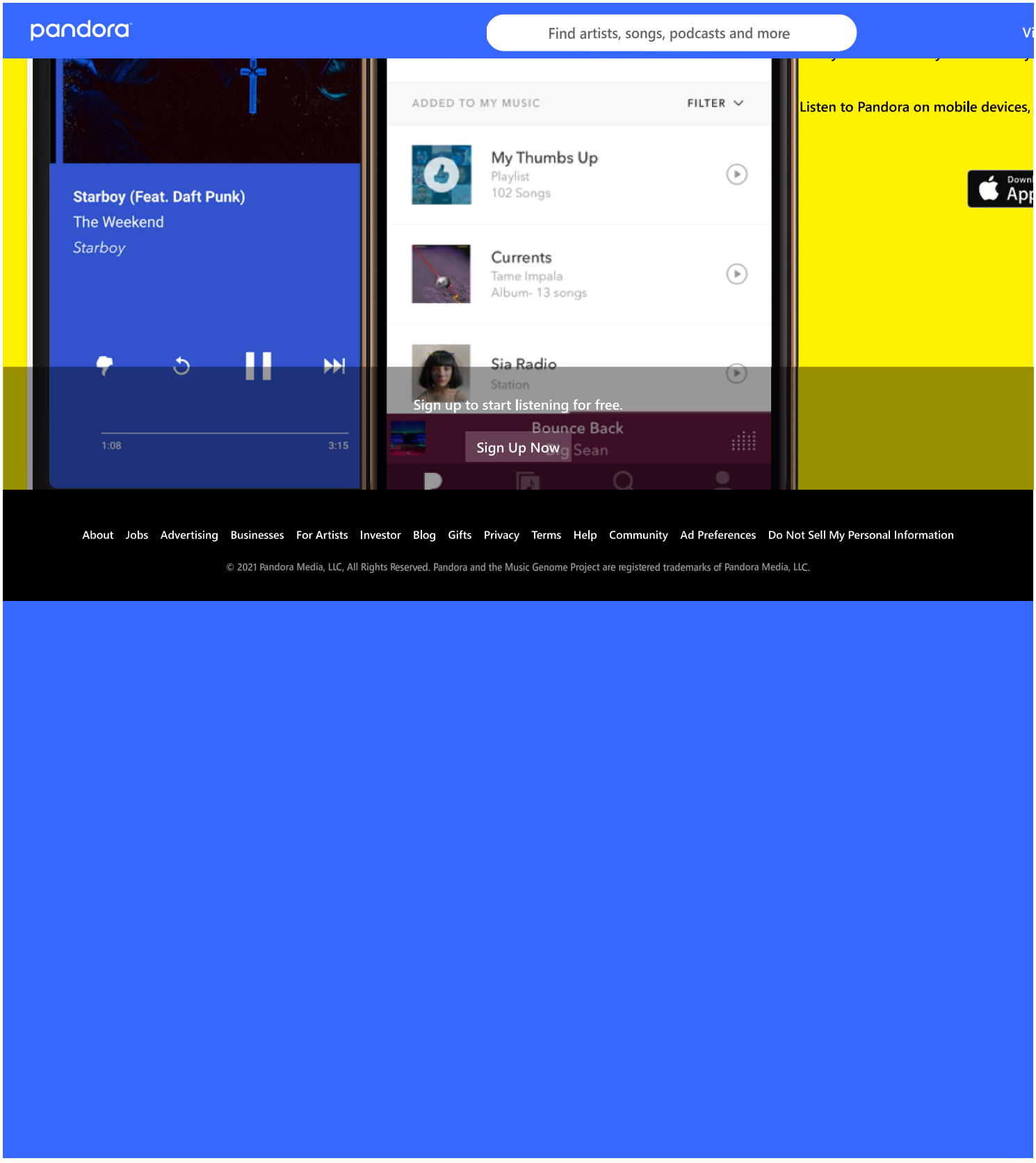
Explore the new Pandora!

Go beyond stations and find the music, comedy and podcasts you love. Play any song from Pandora's library, magically make playlists, go offline and more.



Listen anytime, a

COEX-
8.142


pandora
Find artists, songs, podcasts and more
Starboy (Feat. Daft Punk)
The Weekend
Starboy
1:08
3:15
ADDED TO MY MUSIC
FILTER
My Thumbs Up
Playlist
102 Songs
Currents
Tame Impala
Album- 13 songs
Sia Radio
Station
Bounce Back
Sean
Listen to Pandora on mobile devices,
Sign up to start listening for free.
Sign Up Now
About Jobs Advertising Businesses For Artists Investor Blog Gifts Privacy Terms Help Community Ad Preferences Do Not Sell My Personal Information
© 2021 Pandora Media, LLC, All Rights Reserved. Pandora and the Music Genome Project are registered trademarks of Pandora Media, LLC.

pandora
View Plans Sign Up Log In

Pandora Premium for Families

Families get Pandora Premium for as low as $2.50 per account, plus access to exclusive features! Cancel anytime.

Pandora Premium Family

$14.99 / month

Get 60 Days Free

- ✓ Up to six accounts
- ✓ One low price, one easy bill
- ✓ New or existing listeners
- ✓ Keep your own music
- ✓ Exclusive shared playlist
- ✓ All Pandora Premium Features

Skips limited by certain licensing restrictions. Master account holder must be 21+; all account holders must reside at same address. Subscription automatically renews after trial or current Access Period unless canceled in advance. Subscription Terms and Offer Terms apply.

Sign up to start listening for free.

Sign Up Now

© 2021 Pandora Media, LLC, All Rights Reserved. Pandora and the Music Genome Project are registered trademarks of Pandora Media, LLC.

pandora

View Plans Sign Up Log In

Studying just got way better.

Students get 50% off Pandora Premium for up to four years! Cancel anytime.

Pandora Premium Student

$4.99 / month

Get 60 Days Free

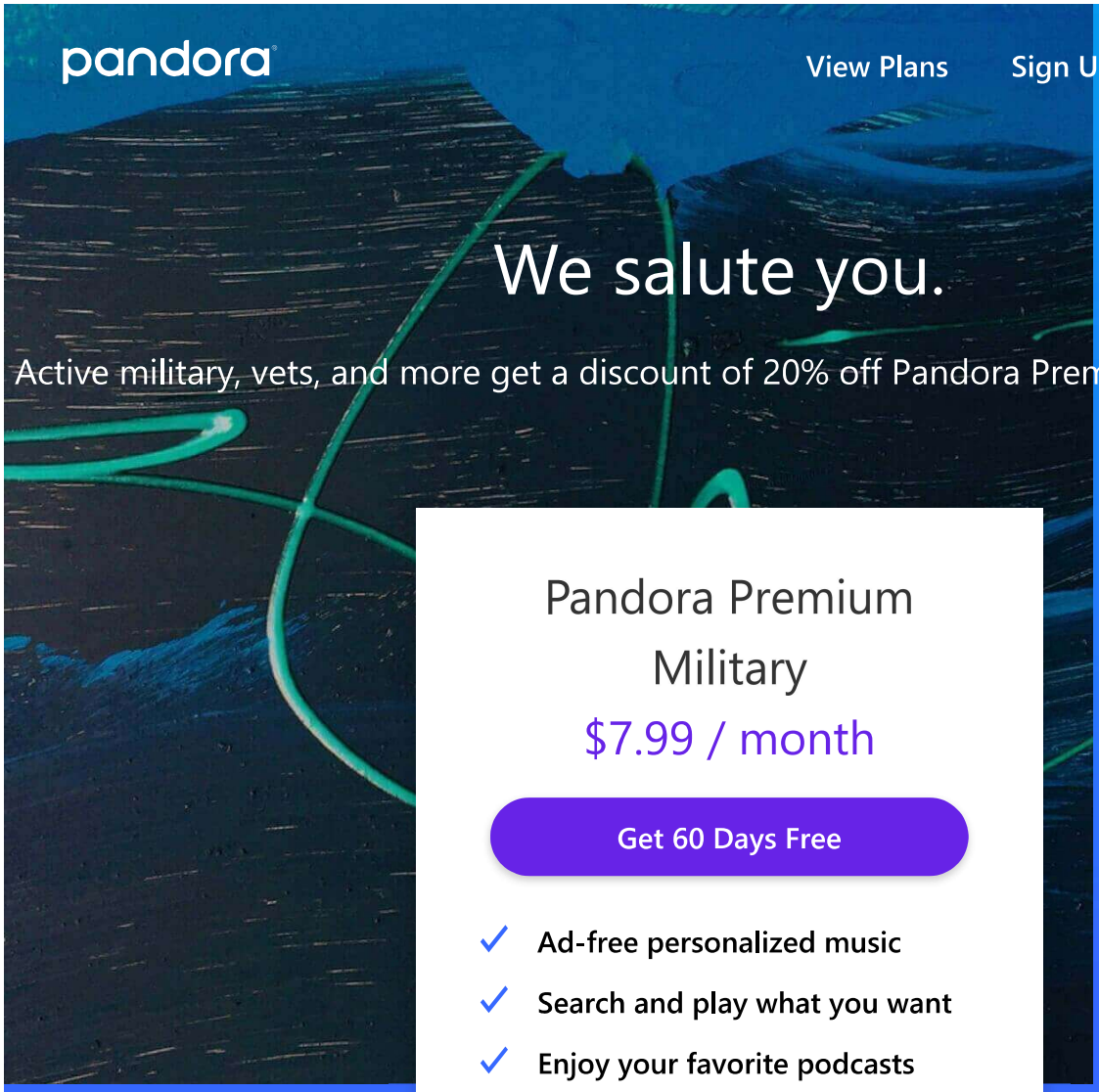
- ✓ Ad-free personalized music
- ✓ Search and play what you want
- ✓ Enjoy your favorite podcasts
- ✓ Unlimited skips
- ✓ Unlimited offline listening
- ✓ Make and share playlists

Skips limited by certain licensing restrictions. U.S. residents, 18+, enrolled at accredited higher education institutions in the U.S. only. Requires annual eligibility verification. Subscription automatically renews after trial or current Access Period unless canceled in advance. Student Discount Terms and Offer Terms apply.

Sign up to start listening for free.

Sign Up Now

© 2021 Pandora Media, LLC, All Rights Reserved. Pandora and the Music Genome Project are registered trademarks of Pandora Media, LLC.



pandora

View Plans Sign Up Log In

We salute you.

Active military, vets, and more get a discount of 20% off Pandora Premium! Cancel anytime.

Pandora Premium Military

$7.99 / month

Get 60 Days Free

- ✓ Ad-free personalized music
- ✓ Search and play what you want
- ✓ Enjoy your favorite podcasts
- ✓ Unlimited skips
- ✓ Unlimited offline listening
- ✓ Make and share playlists

Skips limited by certain licensing restrictions. Offer open to U.S. residents, 18+, active duty in any branch of the U.S. military, plus retirees, veterans, national guard, reserves, and dependents. Requires eligibility verification. Subscription automatically renews after trial or current Access Period unless canceled in advance. Military Discount Terms and Offer Terms apply.

Sign up to start listening for free.

Sign Up Now

© 2021 Pandora Media, LLC, All Rights Reserved. Pandora and the Music Genome Project are registered trademarks of Pandora Media, LLC.

COEX-8.143

Introducing Apple One. Bundle your favorite services and enjoy more of Apple for less. Learn more ›

Hear sound all around.

Try it free

Apple Music is available in iTunes, and for iOS and Android devices.

Play over 75 million songs in lossless audio, at no extra cost.[1]

Hear sound all around you with spatial audio with dynamic head tracking.[2]

Download your favorite tracks. Play them offline.

Get exclusive playlists and live radio.

COEX-
8.143

Listen across all of your devices.

Try it free

Apple Music is available in iTunes, and for iOS and Android devices.

It's as easy as it sounds.

Immerse yourself in spatial audio with dynamic head tracking. And unlock amazing definition with lossless audio.

Listen Now is the easiest way to play what

you love and discover something new.

Tune in to three live radio stations hosted by artists playing today's hits, classics, and country.[3]

Listen live for free ↗

Tap into our editors' picks with curated playlists.

Sing along, tap ahead, or just listen with lyrics view — always on unless you turn it off.

Enjoy your Apple Music experience in the car with CarPlay.

Download and stream music straight to your Apple Watch when you're away from your iPhone.

Get the full Apple Music experience online.

Go to music.apple.com ↗

COEX-
8.143

Learn more about Apple Music features ›

New and noteworthy.

Now Playing

Updated Playlist
New Music Daily

Listen Now
Meek Mill talks with Zane about his new track “Intro (Hate on Me)”.

New Album + Interview
Love For Sale
Tony Bennett & Lady Gaga

Featured Playlists

New Music Daily

Today’s Hits

Rap Life

Up Next

¡dale Play!

A-list Pop

COEX-
8.143

Start your free trial.

No commitment. Cancel anytime.

Apple Music is available in iTunes, and for iOS and Android devices.

	Student[4] $4.99/mo.	Individual $9.99/mo.	Family[5] $14.99/mo.
	Try it free	Try it free	Try it free
Play tracks in Dolby Atmos and hear over 75 million songs in lossless audio, ad-free[1]	✓	✓	✓
Access your entire library from any device and listen online or off	✓	✓	✓
Free trial with no commitment*	✓	✓	✓
Stream ad-free music and music videos	✓	✓	✓
Download 100,000 songs to your library	✓	✓	✓
See what your friends are listening to	✓	✓	✓
Original shows, concerts, and exclusives	✓	✓	✓
Live and on-demand radio stations hosted by artists	✓	✓	✓
Access for up to six people			✓
A personal account for each family member			✓
Share your existing music library however you want			✓

COEX-
8.143

Bundle Apple Music with up to five other great services. And enjoy more for less.

Try Apple One free[6]

Learn more ›

In case you missed anything.

- What is Apple Music?
- How can I listen to Apple Music?
- What does it cost?
- What is Dolby Atmos music?
- How can I listen to Dolby Atmos music?
- What is lossless audio?
- How can I listen to lossless audio?
- Is there any additional cost to listen to Dolby Atmos music or lossless audio?
- Can I share with my family?
- Is there an Apple Music student subscription?
- Are there commercials?
- Is Apple Music the same as iTunes?

COEX-
8.143

Apple Music Student Plan now comes with Apple TV+ for free.[7]

Try it free Learn more about Apple TV+ ›

* New subscribers only. $9.99/month after free trial. Plan automatically renews until cancelled. Terms apply.

1. 20 million songs in lossless audio at launch with the full 75 million songs available by the end of the year.
2. Compatible hardware and software required. Not all content available in Dolby Atmos. Head tracking feature requires iPhone or iPad paired with AirPods Pro or AirPods Max.
3. Apple Music 1, Apple Music Hits, and Apple Music Country are available without an Apple Music subscription.
4. College students only. Verification required.
5. Requires Family Sharing. See apple.com/family-sharing for more information.
6. The Apple One free trial includes only services that you are not currently using through a free trial or a subscription. Plan automatically renews after trial until cancelled. Restrictions and other terms apply.
7. Limited-time offer; offer may end at any time. Free Apple TV+ access for students ends when you no longer qualify or do not renew your Apple Music Student subscription. Offer good for verified college students only and does not extend to a Family Sharing group.

“Summertime” written by Orville Peck.

Copyright © 2021 Apple Inc. All rights reserved.

COEX-8.144

Spotify is increasing its prices — here's which plans are getting more expensive

businessinsider.com/spotify-raising-premium-prices-family-plan-subscription-2021-4

Natasha Dailey

Reuters
Reuters

- Spotify is raising prices for a subscription to its family plan in the US to $15.99.
- Subscription prices in the UK and Europe are increasing as well.
- Shares of the music-streaming app rose Monday and Tuesday following the news.

10 Things in Tech: Get the latest tech trends & innovations

By clicking ‘Sign up’, you agree to receive marketing emails from Insider as well as other partner offers and accept our Terms of Service and Privacy Policy.

Spotify is upping the prices for some its Premium subscriptions on April 30, affecting users in the US, UK, and Europe.

In the US, Spotify is raising the price for a family subscription, which includes up to six users, to $15.99 from $14.99 per month, while prices for other plans such as Duo, Premium, and Student are unchanged.

In the UK, prices for Spotify Duo and Student are increasing by one euro per month, to £13.99 ($16.90) and £5.99 ($7.24), respectively, while the family plan will increase by two euros to £16.99 ($20.52).

In Europe, the family plan will be €17.99 ($21.73) per month, an increase of 3 euros,according to the Verge. The news site added that Spotify is charging more for plans in other European countries, including Ireland, and some countries in Asia and South America as well.

"We offer a variety of subscription plans tailored to our users' needs, and we occasionally update our prices to reflect local macroeconomic factors and meet market demands while offering an unparalleled service," a Spotify spokesperson told Insider in a statement.

The company added that it "continues to innovate and invest in providing our listeners with greater value than ever before, including the best audio content and user experience."

Read more: Spotify turns 15 today and is worth $50 billion. These 5 key breakthroughs made the streaming giant a massive success.

The music and podcast-streaming app sent out emails to subscribers, informing them of the changes.

Spotify

Shares of Spotify rose after the news came out Monday, and rallied again Tuesday after the market opened, according to Markets Insider data. The company is now worth more than $53 billion.

Spotify, which competes with Apple Music, has about 155 million paying subscribers.

For each song streamed, it pays artists less than a penny. Last year, Spotify said artists could promote their music to more listeners, if they took a pay cut on per-stream revenue. Apple, meanwhile, has upped the ante, saying it pays out a penny per stream, Insider reported earlier this month.

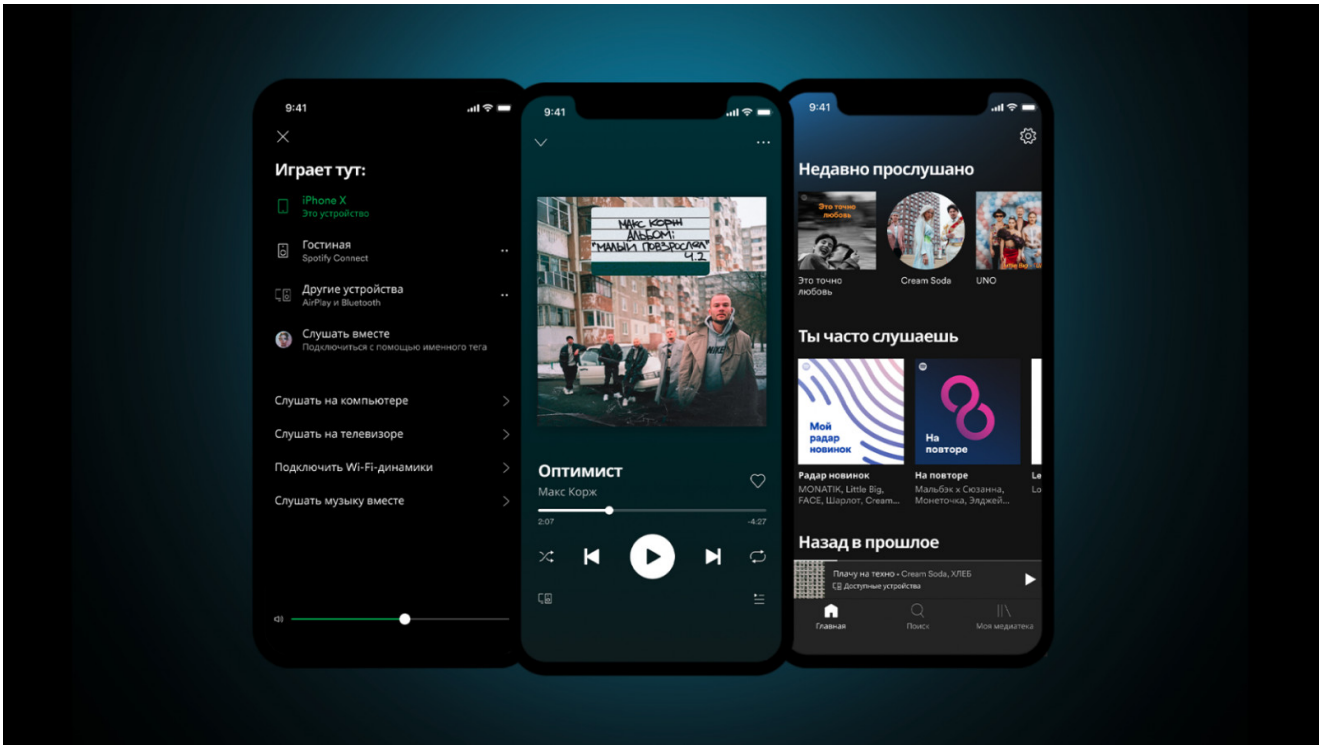
Later this year, subscribers in some markets will have access to Spotify HiFi, an upgrade to the sound quality of music that will allow users to "listen to their favorite songs the way artists intended," the music-streaming app said in a press release.

COEX-8.145

Spotify pushes prices up, but do not expect dramatic effects

midiaresearch.com/blog/spotify-pushes-prices-up-but-do-not-expect-dramatic-effects

Blog Music



by Mark Mulligan
27 Apr 2021

Spotify finally announced a significant price increase, raising prices in the UK and some of Europe, with the US set to follow suit. The increases affect Family, Duo and Student plans. The fact that streaming pricing has remained locked at $9.99 since the early 2000s is an open wound for streaming, so this news is important – but less so for actual impact than statement of intent.

Back in 2019 MIDiA showed that since its launch, Spotify's $9.99 price point had lost 26% in real terms due to inflation while over the same period Netflix (which increased prices) saw a 63% increase. Price increases are a must, not an option. Not increasing prices while inflation raises other goods and services means that streaming pricing is deflating in real terms. In this context, Spotify's move is encouraging, but it is not yet enough. The increases of course do not affect the main $9.99 price point, currently apply to a selection of markets and do not address the causes of ARPU deflation (promotional trials, uptake of multi-user plans, emerging markets). But let's put all that aside for the moment and look at just what impact these changes will have:

· **Pricing:** The increase is 13% for a Family plan and 20% for Student, both meaningful but below the 26% real terms deflation that was hit back in 2019. Averaged across all price points, the price increase represents a 10% uplift (in the markets where this is being done). By comparison, Netflix's last major price hike averaged out at 11% across all price points, so it is line with that, though obviously Netflix had numerous other previous increases.

· **ARPU:** ARPU (i.e. how much people are actually spending) matters more than nominal retail price points, which are subject to promotions and discounts. Spotify ARPU fell from €4.72 in 2019 to €4.31 in 2020. Let us conservatively estimate that would fall to €4.00 in 2021 without any price increases. Let us also assume that the announced price increases roll out to every single Spotify market (which of course they won't) and let's assume it all happened on January 1st 2021 (which of course it didn't). On that basis, and factoring in what share of Spotify subscribers are on family and student plans, total revenue and premium ARPU would increase by 6.2%. ARPU would hit €4.25 (still below 2020) and premium revenue would hit €9.5 billion.

· **Income:** Spotify would earn an extra €166 million gross margin, music rights holders would earn an extra €388 million, record labels €310 million and the majors €212 million, representing 2% of their total income. UMG would earn €95 million. Meanwhile, a recouped major label artist could expect to see a million streams generate €1,487 rather than €1,400 (assuming all the streams were premium).

All of these assumptions are based on this rollout being global and FY 2021, neither of which are the case. So the actual effect will be markedly less. The key takeaway is that this is an important first step on what needs to be a continual journey, and one followed by the other streaming services. Spotify was previous locked in a prisoner's dilemma where no one was willing to make the first move. Spotify had the courage to jump first. What needs to happen next are (though not necessarily in this order):

· Pricing increase to all remaining tiers, especially $9.99

· Other streaming services follow suit

· Tightening up of discounts and promotional trials in well-established markets

Good first step by Spotify; now let the journey begin.

The discussion around this post has not yet got started, be the first to add an opinion.

Trending

Is live-stream composition the new formula for a hit album?

by Ashleigh Millar
1 Oct 2021

COEX-8.146

Podcast Industry Report: Market Growth and Advertising Statistics in 2021

insiderintelligence.com/insights/the-podcast-industry-report-statistics/

Insider Intelligence|July 29, 2021

Powerful data and analysis on nearly every digital topic

Become a Client

Want more

research?

Sign up for the eMarketer Daily Newsletter

Sign Up

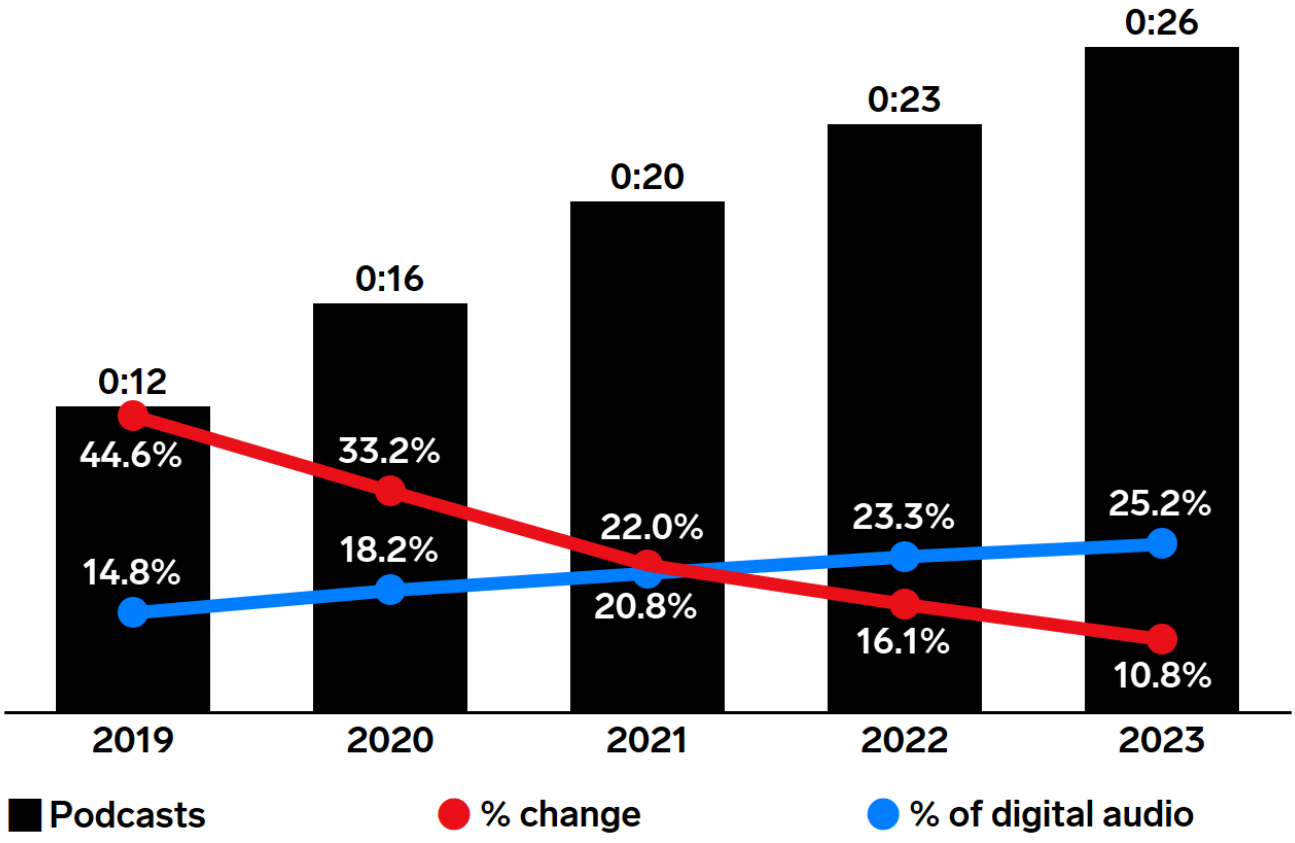
- Podcasting will be a $1 billion industry by 2021.
- Spotify specifically is projected to become the most popular podcast platform in the US this year.

- Do you work in the Marketing, Media & Advertising industry? Get business insights on the latest tech innovations, market trends, and your competitors with data-driven research.

Podcasts have been around for nearly two decades, but the format has come into its own over the last five years. A proliferation of shows, involvement from celebrity talent, investment from large companies like Spotify, and the spread of technologies that boost awareness, like smart speakers, have all helped podcast growth.

Podcasts: Average Time Spent in the US, 2019-2023

hrs:mins per day among population, % change, and % of total time spent with digital audio



Note: ages 18+; time spent with each medium includes all time spent with that medium, regardless of multitasking; for example, 1 hour of multitasking on desktop/laptop while watching TV is counted as 1 hour for TV and 1 hour for desktop/laptop
Source: eMarketer, April 2021

T11517 eMarketer | InsiderIntelligence.com

Podcasts' share of digital audio usage will rise to 40.2% by 2023.

US podcast audience statistics

Podcast listener numbers will see significant growth this year as demand for on-demand audio has increased. In 2021, the number of monthly US podcast listeners will increase by 10.1% year-over-year (YoY) to 117.8 million.

Podcasts are mostly seeing traction among younger consumers—this year, more than 60% of US adults ages 18 to 34 will listen to podcasts monthly. However, as listeners get older podcast listenership drops. Out of consumers between the ages 35 to 44, about half will listen to podcasts monthly, and less than one-fifth of consumers over 65 will listen to podcasts each month.

Growth of the podcasting industry

The podcast industry is in a particular moment of creative and innovative renaissance, from content creation by publishers and hosts, to listener discovery. And while podcasts have been around for nearly two decades, the format has only just entered the mainstream.

> In 2021, the number of monthly US podcast listeners will increase by 10.1% year-over-year (YoY) to 117.8 million.

Podcasts are growing outside of the US as well, and Latin America is a key region to watch given the rapid development of Spanish-language content. Additionally, tech companies are jockeying to become the No. 1 destination for podcast listeners, and the biggest players are Apple Podcast, YouTube, and Spotify.

Spotify specifically is projected to become the most popular podcast platform in the US this year. Spotify will surpass Apple Podcast in listeners—28.2 million US internet users will listen to podcasts monthly on Spotify, compared with 28.0 million who will do so on Apple Podcasts.

Podcast market projection statistics

Podcasts have been around for nearly two decades, but the format has come into its own over the last five years. As more and more podcasts have popped up, listenership has climbed.

For the first time, more than half of all digital audio listeners will tune in to podcasts each month. By the end of 2025, there will be over 144 million monthly podcast listeners in the US. People are also spending more time with podcasts—among adult podcast listeners, time spent with podcasts in 2021 will increase by 8.1% YoY to a little more than 44 minutes per day.

Podcast advertising

The podcast audience is not only large and growing, but attractive: Listeners tend to be young, affluent, and educated, and generally open to advertising in podcasting. This is especially valuable for podcast ads, as the unreachable audience grows and advertisers may have more difficulty accessing younger audiences who are more likely to use technology like ad blockers across other forms of digital media.

While the pandemic decelerated podcast ad spending growth, annual spend is on track to see overall growth. We expect US podcast ad spending to increase by 38.7% YoY in 2021. And in just two years, US podcast ad spending will have nearly doubled, from $701.0 million in 2019 to $1.33 billion in 2021.

Want more research?

Sign up for the eMarketer Daily Newsletter.

By clicking “Sign Up”, you agree to receive emails from Insider Intelligence (e.g. FYIs, partner content, webinars, and other offers) and accept our Terms of Service and Privacy Policy. You can opt-out at any time.

Thank you for signing up for our newsletter!

You can read recent articles from Insider Intelligence here.

Powerful data and analysis on nearly every digital topic

Become a Client

Categories: eMarketer

COEX-8.147

Jun 8, 2015, 03:32pm EDT

Apple Music Vs. Spotify Vs. Tidal: Everything You Need To Know

Janhoi McGregor Senior Contributor
Consumer Tech
Tech reporter. Recovering startup founder. (Pronounced: jan-eye)

This article is more than 6 years old.

Apple has thrown its hat into the music subscription-service ring, but how do the numbers match up?

Apple music

After vacuuming up popular DJs, working on licensing deals right up to the wire and purchasing Beats Electronics for an astonishing sum, Apple Music is finally here. And it looks like a cross between SoundCloud, Spotify and a radio station. Here's how it all breaks down:

Cost: $9.99 or $14.99 for a family package

Apple has gone with a price-point that's squarely in the industry safe-zone. Tidal and Spotify also offer a subscription at $9.99. Like its two respective competitors, there's also a second subscription offer: for $14.99 you can have six family members under the same account, with each person having access to their own profile.

Tracks

Apple Music features over 30 million tracks.

Other stuff

Apple Music in action.

It seems like the only way to get some attention in the music-streaming game is to wheel out some chart-toppers who say they'll have a pivotal - but actually inconsequential - role in the new service. True to form, Apple Music will feature playlists created by Drake, Zane Lowe and 'talented music experts'. Playlists actually make up a large part of Apple Music's appeal, hence the reason Lowe was brought on board - to help users find relevant and new music.

Apple Music features a 24/7 radio channel, 'Connect' which acts like a social media channel that artists can share music, video and pictures on, and integration with Siri. It will be availble on June 30th and there will even be an Android version coming later in the year.

Tidal

The celebrity's choice. Tidal has a superstar roster of supporters/shareholders and one mega-star with his finger on the button - Jay Z. It's not Jay Z's creation, though. Tidal was the brain-child of tech company Aspiro, which was acquired by Jay Z's company earlier this year. What generated so many column inches for Tidal - aside from the bizarre

star-studded launch event - was its promise of lossless audio and HD music videos. Here's how it all breaks down:

Cost: $9.99 or $19.99 for the premium tier

Tidal costs $9.99 a month for the standard service and $19.99 for the 'premium' service. What's the difference? Tidal's high-fidelity sound is only available on the premium tier, this means that for $19.99 you'll be able to listen to CD quality music using the Free Lossless Audio Codec or 'FLAC'.

If you're listening on a smartphone, you'll need a device with decent digital-to-analogue conversion or 'DAC'. Most of the latest top-end handsets have decent DAC and support 24-bit/192kHz music playback. You'll also need a good pair of headphones.

Tracks

Tidal currently has over 30 million tracks on its books, around the same as Spotify and Apple Music. But, crucially, some big-name artists - Like Taylor Swift - are removing their music from Spotify in protest over the 'freemium' tier, which allows users to listen to music for free, provided they also listen intermittent adverts. 45 million of Spotify's 60 million users stream for free. Tidal, which pays artists a larger share for their work, has attracted the likes of Swift (and many others) and has no free tier.

Other stuff

Because of Tidal's support from major recording artists, there's likely to be a temporary exclusive here and there. When it was re-launched under Jay Z's control earlier this year, music from Rihanna and a video from Beyonce and Nicki Minaj made-up some of the exclusive content. Alongside some exclusively curated playlists by artists. Since then, however, exclusive content has been a bit scarce.

Spotify

Spotify is a veteran of the music streaming industry having streamed its first track back in 2008. Now, it has over 60 million users, with 15 million paying subscribers. It's simply the largest and most well-known music streaming service around. Here's how it breaks down:

Cost: free, $4.99 and $10

Spotify has three tiers; free, family and premium. The free tier speaks for itself, it's 'free' in the sense that there's no upfront cost but you'll *pay* by listening to intermittent adverts if you access it on a mobile or tablet. However, on mobile, you can only listen to pre-curated playlists, skip six tracks per hour and you can't listen anything on-demand or offline. Tablet and desktop users have the same restrictions, but can listen to music on-demand and edit playlists.

The premium and family tiers give users full access to all of Spotify's functions. The only difference is that family members of a premium tier subscriber get a 50% discount. There's also a 10% student discount available.

Tracks

Spotify has over 30 million tracks on its books, with over 1.5-billion playlists created since it began. A figure which reflects its market leading position and vast number of users.

Since Tidal re-launched, there's been a growing fear that major artists will jump ship and remove their work from Spotify - so far only Taylor Swift (entire back catalogue) and Jay Z (1996 'Reasonable Doubt' album) have done so. There's unlikely to be a mass exodus from Spotify by artists because most are under record-contracts, and therefore don't own the master recordings or the rights that come with them.

Other stuff

What Spotify lacks in exclusive content the likes of Tidal offers, it makes up for in features/gimmicks (you decide). Including new stuff like Spotify Running - which matches music to your exercise pace - videos, viewing lyrics as a track plays, and Spotify Touch, which lets users preview 30 seconds of a track by simply long-pressing it. There's also access to podcasts and thousands of in-house and user created playlists. Premium users can also enjoy Spotify Connect, which allows you to play music through multiple bluetooth connected speakers via the app.

Stay tuned for a more in-depth review of Apple Muisc in the coming weeks.

Don't forget to sign up for Forbes' 'most read' newsletter here, where you'll get the day's best stories emailed directly to you.

Gallery: 30 Under 30 In Music: The Class Of 2015

31 images

View gallery →

Follow me on Twitter. Check out my website.

Janhoi McGregor

COEX-
8.147

I’m a London-based freelance journalist who specializes in all aspects of technology including reviews, investigations, comment and news. I'm a recovering founder of the...

Read More

Reprints & Permissions

COEX-8.148

Best Music Streaming Services

How to choose among Apple Music, Spotify, Pandora, Tidal, and more

By Thomas Germain

Published June 24, 2016 | Updated September 3, 2021

When you shop through retailer links on our site, we may earn affiliate commissions. 100% of the fees we collect are used to support our nonprofit mission. Learn more.

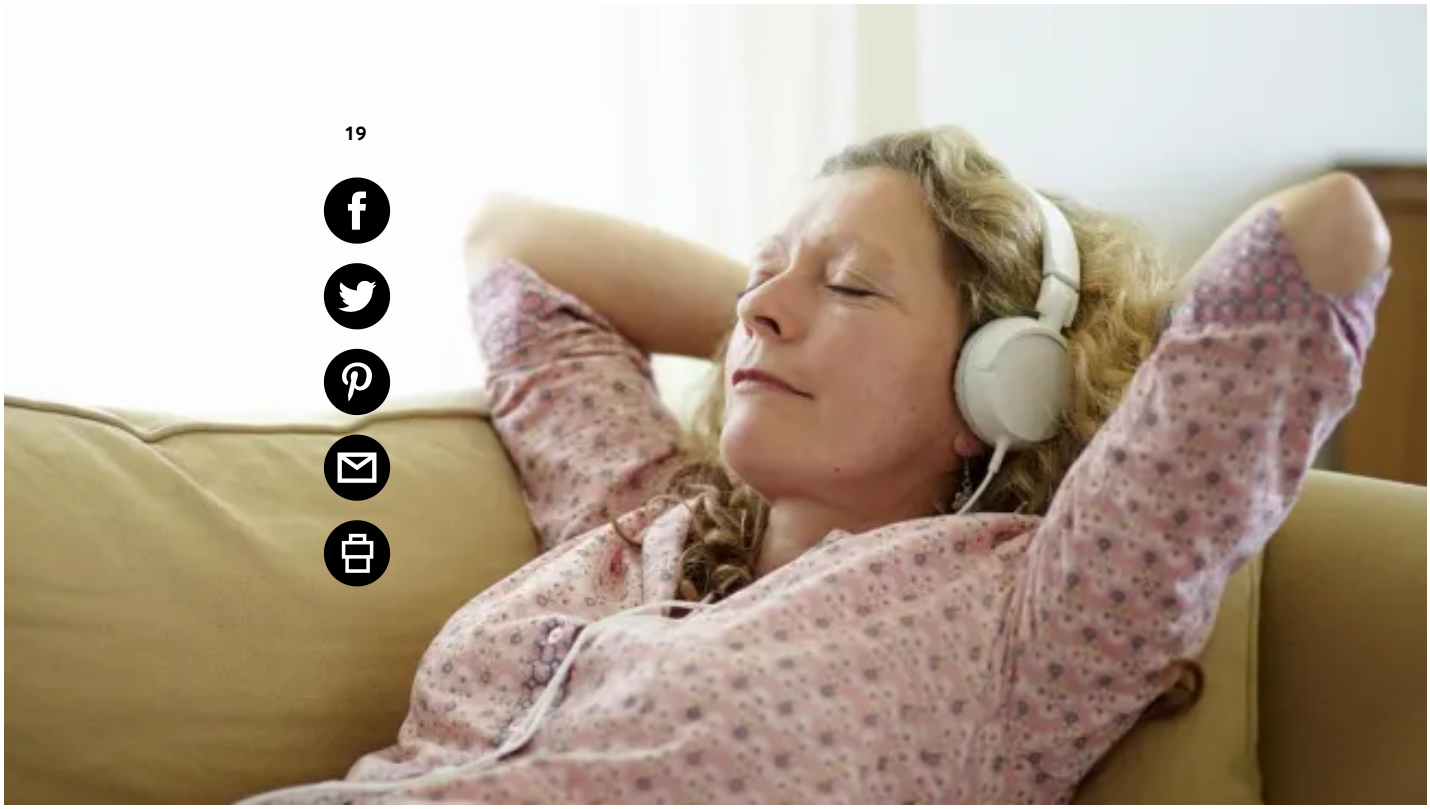


Photo: Richard Drury/Getty Images

The best music streaming services have a lot in common. A number of them offer about 70 million songs for about $10 per month, and they have similar features. Most music streaming services have an unpaid trial period, and many offer a free tier; check out CR's guide to free music streaming for details.

One recent change is that high-quality files, once a rarity, are now becoming fairly commonplace. This provides a great example of how competition is good for consumers. After Spotify announced that higher-quality streaming was on the way, Apple revealed that its entire library would be available in lossless high fidelity a few months later. The next day, Amazon made its hi-fi streaming service a free benefit of its basic tier.

ON MUSIC

ee Music Streaming
es

Wireless Speaker
s & Buying Guide

eadphone Ratings
ng Guide

eadphones Under

Wireless Speakers of

That's good news for audiophiles, though regular streaming quality will probably satisfy most listeners. (You need great equipment to hear the differences between high-quality audio and totally uncompressed lossless files. They're huge files that can eat up your cellphone data, too.)

On the other hand, the music streaming business may be starting to consolidate. SiriusXM bought Pandora in 2019, and Apple just purchased Primephonic, a classical music streaming service we used to recommend.

Apple says it will launch its own classical app next year, and the Primephonic app is shutting down Sept. 7. Current Primephonic subscribers will get a free six-month trial for Apple Music and can expect a refund. For years, consumers have benefited as music streaming companies used perks and new features to fight for the public's attention, but that trend may slow down if the number of companies competing in the streaming industry continues to shrink.

For now, there are still a lot of options to consider. Here, we've laid out what sets each streaming service apart. Scroll through, or click the links below to jump to the details on a particular service.

- Amazon Music Unlimited and Amazon Prime Music

- Apple Music
- Idagio
- LiveXLive
- Pandora
- SiriusXM Select and SiriusXM Premier
- Spotify
- Tidal
- YouTube Music

Amazon Music Unlimited and Amazon Prime Music

Price: Prime Music is included with Amazon Prime, Amazon's paid subscription service that costs $13 per month or $119 per year. It has a library of 2 million songs.

Amazon Music Unlimited costs $8 per month for Prime members or $10 per month for non-Prime members. There's a free three-month trial and a discounted family plan. You can also get a special rate of $4 per month if you sign up for the Single Device Plan via an eligible Amazon Echo device.

You can also access free, ad-supported playlists and stations by asking an Alexa smart assistant to play music.

Who it's best for: Amazon Prime members and anyone looking for a bargain.

Pros: Both are ad-free, on-demand services, and if you already have a Prime subscription, Amazon Music Unlimited is the best deal you can get. Unlimited

has over 75 million songs, curated playlists, podcasts, and personalized stations. That entire library can now be streamed in high-definition, and 7 million tracks are available in 24-bit "Ultra HD." That makes it the cheapest high-definition service right now, with or without a Prime account.

Cons: Amazon Music Unlimited doesn't seem quite as effective in making recommendations as many of its competitors, Spotify in particular. And while you don't have to pay for Prime Music, its 2 million songs amount to a thin selection compared with what you get from other streaming services.

Apple Music

Price: Individuals pay $10 per month; the service costs $15 for up to six family members. Apple Music also has a discounted rate of $5 for students. There is no free tier, but you can get a three-month free trial.

Who it's best for: Consumers who already have large iTunes libraries or who are otherwise committed to the Apple ecosystem.

Pros: Apple Music has a library of 75 million songs that can be accessed on Apple, Windows, and Android devices. After a recent update, that entire library is available in lossless hi-fi at no extra charge. Some content also works with Dolby Atmos surround sound if you have a compatible device. Human curators create a variety of themed playlists that help users discover new music. Unsurprisingly, the Apple Music experience is particularly smooth on iPhones and Mac computers.

Apple just purchased Primephonic, a classical music streaming service built to handle the idiosyncrasies of the genre, such as track titles that don't work as well in systems designed for contemporary music. Apple plans to bring some of Primephonic's features to the Apple Music app, which could make it an excellent choice for fans of the genre. Apple says it's also launching a standalone classical app next year, but it hasn't revealed any details about the plan.

Cons: The desktop app for Windows computers is a little clunky. However, you can now listen to Apple Music in a browser for a more streamlined experience.

Idagio

Price: Idagio is a classical music streaming service that costs $10 per month. There's a free two-week trial period so that you can try the service before you commit. Students can get 50 percent off, and Idagio also has a free ad-supported tier.

For $30 per month, you get access to Idagio's exclusive online concerts, which sometimes feature leading performers.

Confusingly, the price to stream lossless audio quality depends on where you subscribe, either via a web browser, an iPhone, or an Android phone. In some cases it's a free bonus of the basic tier; in others you have to pay more.

Who it's best for: Idagio is meant for fans of classical music.

Pros: Idagio is built to suit the idiosyncrasies of the genre. It can be hard to find your favorite recording of a beloved Rachmaninoff concerto on more mainstream services, even though those services might work perfectly well for tracking your favorite Olivia Rodrigo remix. On Idagio, the search tools handle the naming conventions of classical tracks with ease.

Idagio also has a number of browsing tools, such as curated playlists and the option to sort by various instruments. Streaming high-quality audio files is another perk that may be free depending on how you subscribe (see above).

Cons: Idagio doesn't have music that falls outside the realm of classical music, so you're out of luck if you like some Springsteen with your Stravinsky.

For now, Idagio is a great choice for the genre, but it might be hard to justify paying for a separate classical music service in the near future. Apple Music just purchased Primephonic, a classical music streaming service that used to be

Idagio's main competitor. Apple plans to launch a standalone classical music service and roll many of Primephonic's features into the Apple Music app.

LiveXLive

Price: Streaming radio is free with ads or $4 per month without ads. For $10, you also get access to an on-demand music library. There's a student discount but no trial period for the paid service.

Who it's best for: LiveXLive—formerly known as Slacker Radio—is similar to Pandora, and best for people who prefer a more laid-back listening experience and aren't picky about exactly which song comes next. The service also focuses on streaming live performances, so subscribers may get access to streams from concerts where the service is a partner.

Pros: Access to a variety of stations, including ABC News and ESPN Radio, in addition to the usual music genres.

Cons: LiveXLive is geared toward listening to stations, not streaming tracks on demand. The app is a bit difficult to navigate, and the website can be a challenge as well. LiveXLive doesn't advertise how many songs are in its library, which suggests its offerings may be more limited than those of leading competitors.

Pandora

Price: The streaming radio feature is free with ads. For $5 per month, you listen to streaming radio without ads, or specific songs with ads. The $10-per-month tier gets you access to the entire service ad-free. A $15 family plan is also available. Pandora offers free trial periods for the paid plans, and discounts for students and members of the military.

Who it's best for: Paid subscribers can stream specific tracks, as they can on any other service, but Pandora works best for those who want tailored recommendations and the kind of hands-off listening experience you get with a

live radio station. You don't need to scroll through lists of songs or do a lot of searches—you just sit back and listen to what the service picks for you.

Pros: It's easy to get started. Tell Pandora which artist you want to hear and it creates a channel with selections from that artist and others with similar styles; you can tweak the channel to match your tastes.

Cons: Pandora's maximum audio quality isn't as high as that of some of its competitors. Pandora doesn't advertise how many songs are in its library, which suggests its offerings may be more limited than those of leading competitors.

SiriusXM Select and SiriusXM Premier

Price: SiriusXM is best known for its satellite radio service for cars, but it also has cheaper packages that let users listen through an app or a web browser.

The packages SiriusXM offers change so frequently it isn't worth keeping track of the specifics. For around $11 per month you can get a subscription that will let you listen on your phone, with access to hundreds of channels, including music, comedy, sports, talk radio, on-demand shows, and ad-free music with skippable tracks. Sometimes that price gets you access to the Howard Stern channels (his new content is a SiriusXM exclusive), but sometimes you need to pay more for that.

There's also an extra charge if you want to stream directly to a car radio (though you could just get the app and use Bluetooth if you have good cell service). Last we checked, that cost a total of $17 per month.

There are free trials, discounted rates for the first year, and family plans.

Who it's best for: Consumers who like terrestrial radio stations but want more options and a commercial-free experience with the option of skipping tracks. SiriusXM is also the only game in town for Howard Stern fans.

Pros: SiriusXM has a wide variety of offerings that will probably be a significant upgrade over your local radio stations. And if you have good cell service on your commute, plus an unlimited data plan, you could stream to your car stereo from your phone. You'll get cheaper access to the same content offered in the company's satellite radio packages.

Cons: You have to call customer service to end your subscription, which was a convoluted, time-consuming process when we tried it. Choosing a package is also surprisingly complicated. When you factor in the satellite radio tiers, new users need to pick from numerous subscription choices with a confusing variety of offerings, optional add-ons, and hidden fees. The packages change constantly and details are hard to find, so you'll never know for sure if you're getting the best price. The SiriusXM app and web interface can also be more difficult to navigate than those of most competitors.

Spotify

Price: Users can stream music free with ads via desktop and web apps. The Premium tier, which costs $10 per month for individuals or $15 for up to six family members, grants ad-free on-demand access to Spotify's library of 70 million tracks and 2.6 million podcasts. Students pay a discounted rate of $5 and get free access to Hulu (with commercials) and Showtime. A 30-day trial period is available.

Who it's best for: Consumers who want to hear plenty of music on a variety of devices. The free tier is also one of the better options for users who don't mind ads and want to listen to songs on demand. Spotify is also famous for its effective recommendation algorithm.

Spotify has doubled down on podcasts as well. The service is host to a variety of exclusive content, including shows from the likes of Barack Obama and Joe Rogan.

Pros: Spotify combines a large library of popular songs with a series of robust playlists. These playlists are often geared toward specific activities and genres, helping consumers find music for specific situations, such as the gym or long car trips. Podcasts and other original programming are also available. If you're a student who also wants a TV streaming service, bundling with Hulu could save you money as well.

Spotify works with a variety of connected devices, including the Sonos One and Google Home Max smart speakers, as well as video game consoles. Desktop apps are available for macOS and Windows, and mobile apps are available for Android and iOS.

Cons: On a smartphone, users can stream playlists and stations free with ads, but on-demand song selection is limited to a small selection of tracks and you can skip only a certain number of songs per hour. You can't connect Spotify directly from the Apple HomePod, though you can connect your phone to the smart speaker over Bluetooth and play Spotify that way.

Spotify says high-quality audio is coming "later this year," but it isn't available yet.

Tidal

Price: Tidal has many tiers. It starts at $10 per month for standard audio quality; $20 per month unlocks high-resolution audio. Discounted plans for families, students, and members of the military are available. The service offers a free one-month trial.

Who it's best for: Music lovers who want high-quality audio (including high-res audio) and offline listening. The service is also great for hip-hop and R&B fans; its offerings are particularly comprehensive, including some exclusive material.

Pros: Tidal offers CD-quality and high-res audio (via HiFi, its top-tier service). Tidal's library features 70 million songs and hundreds of thousands of videos.

Cons: The cost of $20 per month is steep, especially when lossless streaming doesn't cost extra with the Amazon and Apple services. You also might not be able to hear the difference with the high-quality files if you don't have excellent audio equipment. And even if you feel high-quality audio files are worth the price of admission, they can use up small cellular data plans pretty quickly.

YouTube Music

Price: YouTube Music is free with ads. YouTube Music Premium, which is ad-free, costs $10 per month for an individual or $15 per month for families. A free three-month trial is available. Discounts are available for students. People with a Google smart speaker can access free ad-supported playlists and stations without signing up by asking their device to play music.

Adding some potential confusion, there's a separate service called YouTube Premium, which costs $12 per month. It includes the same music streaming service plus ad-free videos and some original video content.

Who it's best for: First and foremost, people with a large collection of their own audio files. It's the best option for anyone who wants to upload their own library and listen to it on the go without paying a fee. YouTube Music is also a great option if you're considering paying to get rid of the ads on YouTube, the bundle makes for a nice discount. YouTube Music is also one of the few free options for listening to songs on demand.

Pros: What sets YouTube Music apart is the ability to upload up to 100,000 of your own audio files to stream from the cloud. You don't have to pay anything to use this feature.

YouTube Music Premium gives you access to a library of 70 million songs, personalized playlists, and music videos. Location-based playlists will even suggest songs—think high-tempo music at the gym—at appropriate times.

Cons: There's a major flaw to the free tier of YouTube Music. Unless you're listening to tracks you uploaded yourself, you can't lock your phone or switch to another app without the music stopping.

How to Listen

Whichever service you choose, you'll have a better time with your music if you play it on equipment that sounds great. Here are a few of the best-rated headphones and speakers from CR's ratings.

CR QUICK TAKE

1MORE E1001 Triple Driver

Price: $67.64 Shop

SOUND QUALITY

Unlock Headphone Ratings

Become a Member or Sign in

CR QUICK TAKE

Sennheiser HD 250BT

Price: $49.95 Shop

SOUND QUALITY

Unlock Headphone Ratings

Become a Member or Sign in

CR QUICK TAKE

Edifier S1000DB

Price: $349.99 Shop

SOUND QUALITY

Unlock Wireless & Bluetooth Speaker Ratings

Become a Member or Sign in

CR QUICK TAKE

JBL Flip 4

Price: $80

SOUND QUALITY

Unlock Wireless & Bluetooth Speaker Ratings

Become a Member or Sign in

Which music streaming services do you use?

Let us know in the comments section below.

COEX-
8.148

Thomas Germain

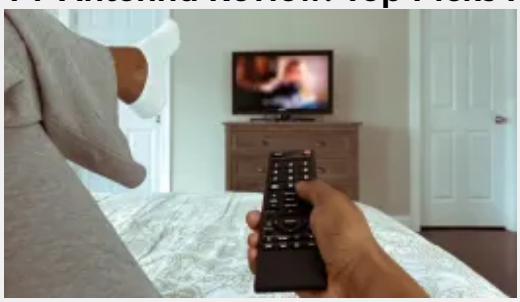
I want to live in a world where consumers take advantage of technology, not the other way around. Access to reliable information is the way to make that happen, and that's why I spend my time chasing it down. When I'm off the clock, you can find me working my way through an ever-growing list of podcasts. Got a tip? Drop me an email (thomas.germain@consumer.org) or follow me on Twitter (@ThomasGermain) for my contact info on Signal.

More From Consumer Reports

Best Electronics Deals Right Now

How to Stream NFL Games Without Cable

TV Antenna Review: Top Picks From Consumer Reports' Latest Tests



How to Replace Cable TV for Only $25 a Month

SHOW COMMENTS (1) | *commenting powered by Facebook*

Privacy Policy | User Agreement | Ad Choices | Do Not Sell My Personal Information
© 2021 Consumer Reports, Inc.

COEX-8.149

Amazon Music rolls out a lossless streaming tier that Spotify and Apple can’t match

theverge.com/2019/9/17/20869526/amazon-music-hd-lossless-flac-tier-spotify-apple

Dieter Bohn, Chris Welch September 17, 2019

Illustration by Alex Castro / The Verge

Amazon is launching a new tier of its music service today, dubbed Amazon Music HD. It offers lossless versions of audio files for streaming or downloading at a price that aggressively undercuts Tidal, the main competition for this kind of audio. Amazon will charge $14.99 a month for the HD tier, or $12.99 if you’re an Amazon Prime customer. Tidal’s Hi-Fi plan costs $19.99 monthly. The new plan was rumored a few months ago.

Amazon says it has a catalog of over 50 million songs that it calls “High Definition,” which is the term it’s applying to songs with CD-quality bit depth of 16 bits and a 44.1kHz sample rate. It also has “millions” (read: less than 10 million, more than one million) of songs it’s calling “Ultra HD,” which translates to 24-bit with sample rates that range from 44.1kHz up to 192kHz. Amazon Music HD will deliver them all in the lossless FLAC file format, instead of the MQA format that Tidal uses.

Amazon’s VP of Music, Steve Boom, tells me that Amazon chose the HD and UltraHD terminology because it found it was more comprehensible to a mass audience than the current terminology for audio quality. And “mass audience” is exactly what Amazon is going for; it doesn’t want Amazon Music HD to be a niche player like Tidal and other lossless music platforms like HDtracks or Qobuz.

The new, not very complicated Amazon Music HD logo

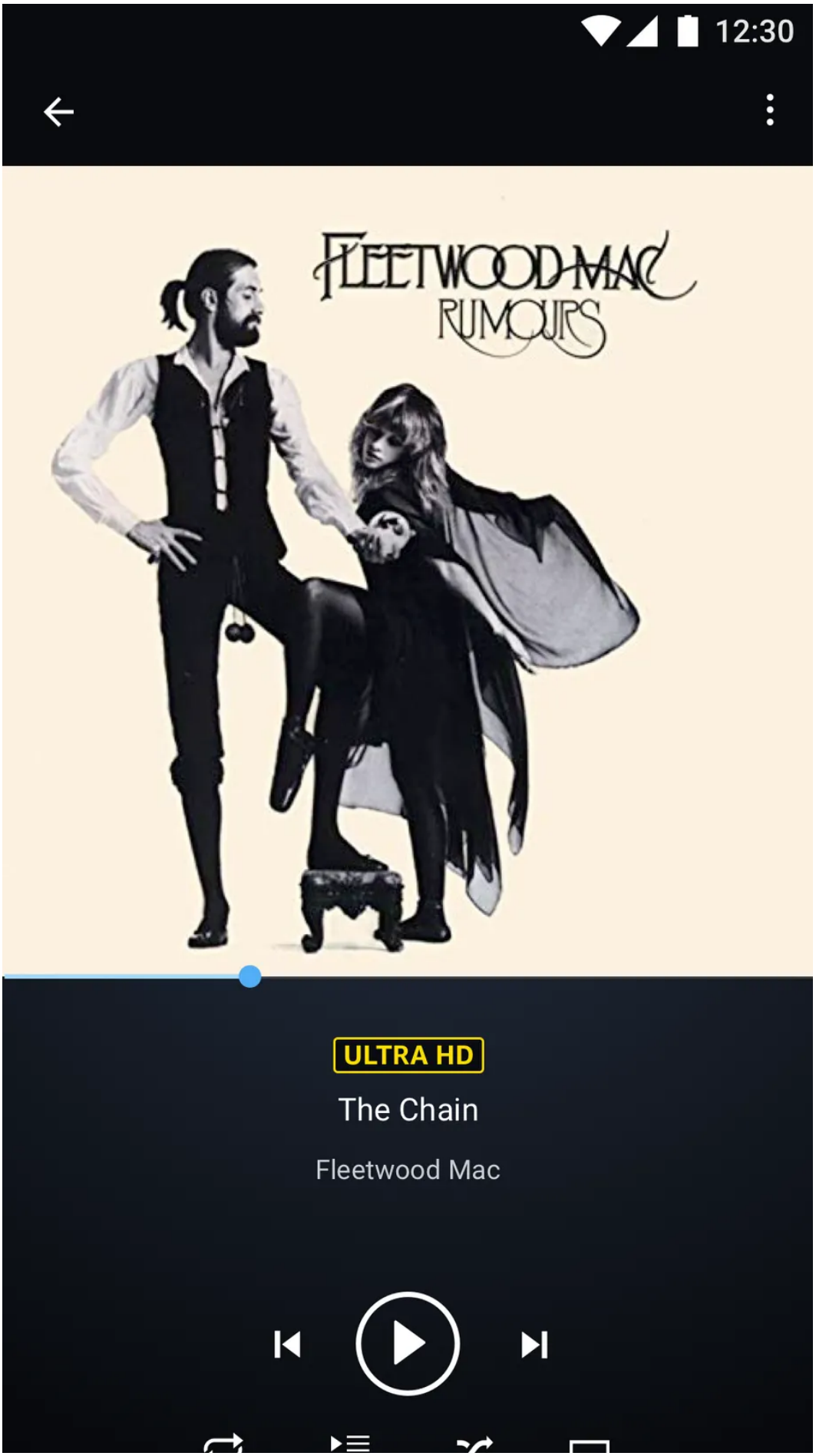
Boom says that “It’s a pretty big deal that one of the big three global streaming services is doing this — we’re the first one.” Amazon Music isn’t often in the conversation about music streaming competition, which usually ends up following a Spotify vs. Apple Music narrative. But Amazon considers itself in their company, and with the new HD offering it’s looking to differentiate itself and perhaps raise its profile.

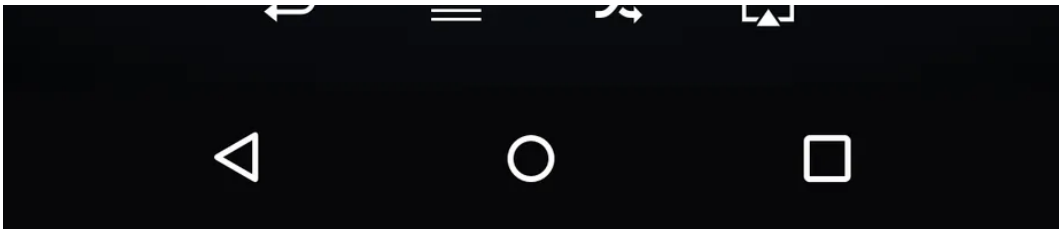
Boom declined to give new subscriber numbers, but Amazon’s music service did reportedly have more than 32 million subscribers as of this past April. Spotify hit 100 million paid subscribers that same month. But remember that millions of people have access to a sampling of Amazon’s catalog through Prime Music, which comes included for free with a Prime subscription. That’s a powerful tool for getting them to step up to an Amazon Music Unlimited or Amazon Music HD plan.

Giving users a specific reason to switch to Amazon Music, beyond working slightly better with Echo speakers, could give Amazon a boost. Right now Spotify is sort of the global default and Apple has been aggressive at making carrier deals in the US to boost its numbers. But even if Amazon can’t peel off subscribers from those services, it seems likely that it’ll pull some users — perhaps many — away from Tidal, though that’s not exactly a big pool to draw from.

Spotify has at times tested lossless audio but has yet to officially launch a plan for all customers. Apple, meanwhile, is doing everything it can to extract the most quality from the AAC format it uses, but has always stopped short of going in on lossless. If it finds success, Amazon’s latest move could give both companies another push to come up with something similar. Lossless demands a lot more bandwidth, however, and some listeners might struggle to tell a difference between it and the “high” quality setting streaming apps currently offer.

Rock legend Neil Young, who has for years extolled the benefits of high-res music (remember Pono?), really took the hyperbole up to 11 in reacting to today’s news. “Earth will be changed forever when Amazon introduces high quality streaming to the masses,” he said in Amazon’s press release. “This will be the biggest thing to happen in music since the introduction of digital audio 40 years ago.”


12:30
FLEETWOOD MAC
RUMOURS
ULTRA HD
The Chain
Fleetwood Mac



I got a brief demo of the service yesterday and of course it sounded amazing — anything would in the Hi-Fi setup Amazon had in its San Francisco office. Audiophiles with similar setups will be able to take advantage of Amazon's service with the right DAC attached to their phone. And if you've got one of LG's smartphones with a built-in DAC, this is another instance where that hardware will pay off.

Amazon says that its HD service will be compatible with products from "Denon and Marantz with HEOS Built-in, Polk Audio, Definitive Technology, Sonos, McIntosh, Sennheiser, and many more." Of course, you also aren't likely to hear a big different on most Echo speakers — especially earlier models and Echo Dots. Boom says that most recent models have a line-out, though.

When you're playing an HD or UltraHD song, you can tap on the HD logo to bring up a screen that provides more details about the actual quality of that stream or file. Amazon will dynamically reduce quality if you're on a low bandwidth connection. You will definitely hear the difference on both iPhones and Android phones, but since they max out at 24-bit/44.1kHz quality on their built-in DACs, you won't get the very best quality without an external DAC. Plus, if you're using Bluetooth you're unlikely to hear the difference, Boom says.

The service is launching today and Amazon is offering a 90-day free trial. It will be available in the US, UK, Germany, and Japan.

Next Up In Tech

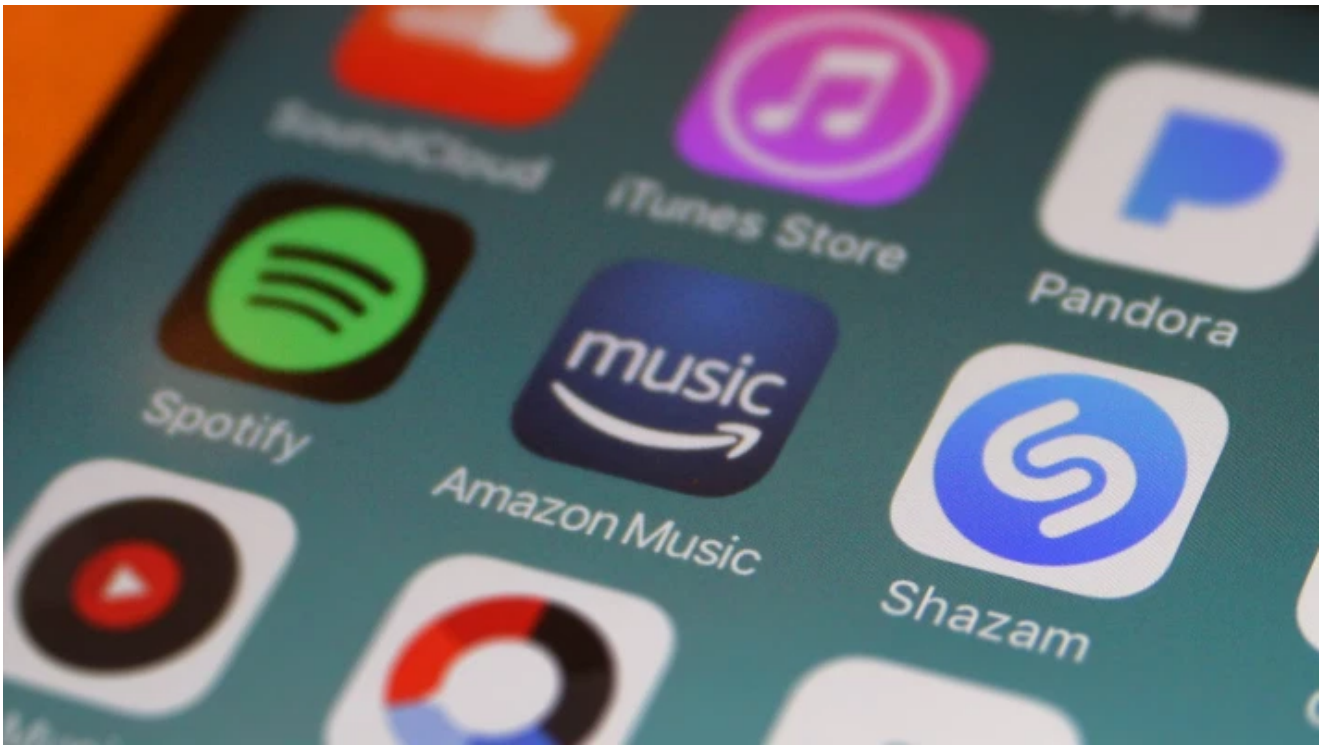
COEX-8.150

Amazon makes its lossless music streaming service a free upgrade

techcrunch.com/2021/05/17/amazon-makes-its-its-lossless-music-streaming-service-a-free-upgrade/

Sarah Perez

Sarah Perez @sarahintampa / 5 months



On the heels of this morning's announcement of Apple's next-generation music service featuring lossless audio and spatial audio with support for Dolby Atmos, Amazon is making a move likely aimed at retaining its own streaming music subscribers. The company says that going forward, its high-quality streaming tier, Amazon Music HD, will be made available to all eligible Amazon Music Unlimited subscribers at no extra cost.

Amazon first announced Amazon Music HD in fall 2019 with access to over 50 million songs that would stream in what Amazon is calling HD, with a bit depth of 16 bits and a sample rate of 44.1kHz (around CD-quality). It also promised "millions" more songs that would stream in Ultra HD, or 24-bit, with a sample rate of up to 192kHz (or better than CD quality).

Today, Amazon Music's HD catalog has grown to more than 70 million songs and there are over 7 million Ultra HD tracks available. Amazon Music HD customers can also access a growing catalog of songs remixed in 3D Audio formats such as Dolby Atmos and Sony 360RA, which can be played back on Amazon's own high-fidelity speaker, the Echo Studio.

Music in 360RA can also be streamed via Amazon Music HD on Sony's RA5000 and RA3000 speakers by using Alexa Cast, the company notes.

> Apple to add lossless audio to Apple Music at no additional cost

The launch of HD streaming was seen as a way to counteract the threat from the music streaming service Tidal, which had been catering to audiophiles with higher quality streams, as well as a way to differentiate its service from larger streaming rivals, like Apple and Spotify — the latter which recently announced a high-end subscription of its own, Spotify HiFi, whose pricing and launch date is yet unknown.

Before today, Amazon Music HD was priced at $12.99 per month for Amazon Prime subscribers and $14.99 per month for anyone else. Now, Amazon says that new and existing subscribers to the Amazon Music Unlimited Individual Plan ($7.99/month for Prime members and $9.99/month otherwise) or the Family Plan ($14.99/month) can upgrade to Amazon Music HD at no additional cost — essentially a $5 per month savings.

The changes will kick in at the next billing cycle, and are supported in the U.S., U.K., Germany, Canada, France, Italy and Spain.

"When we first launched Amazon Music HD, our goal was to lead the industry by enabling music fans around the world to stream the best quality recording, the way artists intended their music to be heard," said Steve Boom, VP of Amazon Music, in a statement about today's news. "We're thrilled now to make Amazon Music HD available to everyone at no extra cost. All music fans should have access to this quality of music, and now they do," he added.

The move by Amazon to make its HD catalog a free upgrade follows this morning's announcement from Apple that it will add lossless audio to Apple Music at no additional cost, starting next month. Apple touts over 75 million songs in lossless audio. The upgrade will also bring spatial audio with support for Dolby Atmos. Given the shift in the market, the pressure is on Spotify to make its HiFi music service competitively priced, as well.

Amazon Music Unlimited has been seen as the dark horse of music streaming, given its potential to grow to a larger size simply based on its ties with Amazon's popular Prime subscription. The service had 55 million subscribers since early 2020, but Amazon declined to provide an updated figure today. For comparison, Apple Music announced 60 million subscribers in 2019 and was estimated to have grown to 72 million by early 2020 and likely more than 80 million by now. Spotify, meanwhile, has 158 million paid subscribers.

> Generative algorithms are redefining the intersection of software and music

COEX-8.151

Apple Music announces Spatial Audio with Dolby Atmos; will bring Lossless Audio to entire catalog

apple.com/newsroom/2021/05/apple-music-announces-spatial-audio-and-lossless-audio/

PRESS RELEASE May 17, 2021

The next generation of sound on Apple Music is coming to subscribers June 2021 at no additional cost

Spatial Audio with Dolby Atmos and Lossless Audio are coming to Apple Music subscribers beginning June 2021.

Cupertino, California Apple today announced Apple Music is bringing industry-leading sound quality to subscribers with the addition of Spatial Audio with support for Dolby Atmos. Spatial Audio gives artists the opportunity to create immersive audio experiences for their fans with true multidimensional sound and clarity. Apple Music subscribers will also be able to listen to more than 75 million songs in Lossless Audio — the way the artists created them in the studio. These new features will be available for Apple Music subscribers starting next month at no additional cost.

“Apple Music is making its biggest advancement ever in sound quality,” said Oliver Schusser, Apple’s vice president of Apple Music and Beats. “Listening to a song in Dolby Atmos is like magic. The music comes from all around you and sounds incredible. Now we are bringing this truly innovative and immersive experience to our listeners with music from their favorite artists like J Balvin, Gustavo Dudamel, Ariana Grande, Maroon 5, Kacey Musgraves, The Weeknd, and so many more. Subscribers will also be able to listen to their music in the highest audio quality with Lossless Audio. Apple Music as we know it is about to change forever.”

Spatial Audio with Support for Dolby Atmos

Apple is bringing Spatial Audio with support for Dolby Atmos to Apple Music. Dolby Atmos is a revolutionary, immersive audio experience that enables artists to mix music so the sound comes from all around and from above. By default, Apple Music will automatically play Dolby Atmos tracks on all AirPods and Beats headphones with an H1 or W1 chip, as well as the built-in speakers in the latest versions of iPhone, iPad, and Mac. Apple Music will be adding new Dolby Atmos tracks constantly and will be curating a special set of Dolby Atmos playlists to help listeners find the music they love. In addition, albums that are available in Dolby Atmos will have a badge on the detail page for easy discovery.

At launch, subscribers can enjoy thousands of songs in Spatial Audio from some of the world's biggest artists and music across all genres, including hip-hop, country, Latin, pop, and classical. Apple Music is working with artists and labels to add new releases and the best catalog tracks, as more artists begin to create music specifically for the Spatial Audio experience. Together, Apple Music and Dolby are making it easy for musicians, producers, and mix engineers to create songs in Dolby Atmos. Initiatives include doubling the number of Dolby-enabled studios in major markets, offering educational programs, and providing resources to independent artists.

"Today marks the introduction of Dolby Atmos on Apple Music — a new music experience that is transforming how music is created by artists and enjoyed by their fans," said Kevin Yeaman, Dolby Laboratories' president and CEO. "We are working with Apple Music to make Dolby Atmos widely available to all musicians and anyone who loves music."

J Balvin said: "I'm really excited to be part of this project with Apple Music because I always want to be a step ahead and I think this is one of those steps. With Lossless, everything in the music is going to sound bigger and stronger but more importantly, it will be better quality. Hearing myself and my music in Dolby Atmos for the first time, it was just crazy, it blew my mind, it's indescribable. I think fans will really love this new experience."

Gustavo Dudamel said: "There are no words to describe the immersive, overpowering experience of being a conductor, leading a performance of Mahler's towering 'Symphony of a Thousand.' But now, technology is advancing to bring that experience closer to our ears, our minds, and our souls. Share with me this monumental, live performance with my beloved Los Angeles Philharmonic, remastered in Dolby Atmos audio technology for the first time on Apple Music alongside my collection of Deutsche Grammophon recordings with the LA Phil, in rich, remarkable 3D sound."

Grammy Award-winning producer, songwriter, and composer Giles Martin said: "Since recording began, artists, producers, and engineers have tried to paint pictures with sound, transporting listeners to worlds they never knew existed, even when the sound came from a single speaker. Now with the dawn of immersive audio, we can take the music lover inside the music. From the feeling of hearing your favorite artist in the same room as you, to the experience of sitting directly in the middle of a symphony orchestra, the listening experience is transformative and the possibilities for the creator are endless. This is a quantum leap in technology – I have so far had the pleasure of mixing some of the greatest artists in history in Dolby Atmos. With this work I have found myself falling into albums I love. There is a unique experience of being able to fully immerse myself in music that, although is familiar, suddenly sounds new, fresh, and immediate. As a creator, it is beyond exciting that we can now share this incredible experience through Apple Music."

Grammy Award-winning mixing engineer Manny Marroquin said: "Spatial Audio gives music a new identity. Every time I mix in Atmos it gives me goosebumps. The future has arrived."

Lossless Audio

Apple Music will also make its catalog of more than 75 million songs available in Lossless Audio. Apple uses ALAC (Apple Lossless Audio Codec) to preserve every single bit of the original audio file. This means Apple Music subscribers will be able to hear the exact same thing that the artists created in the studio.

To start listening to Lossless Audio, subscribers using the latest version of Apple Music can turn it on in Settings > Music > Audio Quality. Here, they can choose different resolutions for different connections such as cellular, Wi-Fi, or for download. Apple Music's Lossless tier starts at CD quality, which is 16 bit at 44.1 kHz (kilohertz), and goes up to 24 bit at 48 kHz and is playable natively on Apple devices. For the true audiophile, Apple Music also offers Hi-Resolution Lossless all the way up to 24 bit at 192 kHz.[1]

Mastering Engineer Piper Payne said: "The soul and life of the mix is sitting in the extra bits of data that are stored in the lossless file. As a mastering engineer, having the ability to convey the music to the listener at its highest quality is the end goal of what I work for every day."

Availability

> Spatial Audio with support for Dolby Atmos and Lossless Audio will be available to Apple Music subscribers at no additional cost.
>
> Thousands of tracks will be available in Spatial Audio with Dolby Atmos at launch, with more added regularly.
>
> Apple Music's catalog of more than 75 million songs will be available in Lossless Audio.

More information, including a comprehensive list of compatible devices, is available at apple.com/apple-music.
Share article

-
-
-
-

About Apple Music

Apple loves music. With iPod and iTunes, Apple revolutionized the music experience by putting a thousand songs in your pocket. Today, Apple Music takes this to the ultimate with over 75 million songs, thousands of playlists, and daily selections from the world's best music experts, including all of the artists and hosts broadcasting daily across its Apple Music 1, Apple Music Hits, and Apple Music Country global live streams. Since 2015, Apple Music

has welcomed tens of millions of subscribers in 167 countries and regions. Streaming seamlessly to iPhone, iPad, iPod, Apple Watch, Apple TV, Mac, HomePod, and CarPlay, Apple Music is the most complete music experience on the planet. Apple Music is also available on popular smart TVs, smart speakers, Android and Windows devices, and more — as well as online at music.apple.com.

Apple revolutionized personal technology with the introduction of the Macintosh in 1984. Today, Apple leads the world in innovation with iPhone, iPad, Mac, Apple Watch, and Apple TV. Apple's five software platforms — iOS, iPadOS, macOS, watchOS, and tvOS — provide seamless experiences across all Apple devices and empower people with breakthrough services including the App Store, Apple Music, Apple Pay, and iCloud. Apple's more than 100,000 employees are dedicated to making the best products on earth, and to leaving the world better than we found it.

1. Due to the large file sizes and bandwidth needed for Lossless and Hi-Res Lossless Audio, subscribers will need to opt in to the experience. Hi-Res Lossless also requires external equipment, such as a USB digital-to-analog converter (DAC).

Press Contacts

Brian Bumbery

Apple

bumbery@apple.com

(424) 326-4156

Jessica Bass

Apple

jessica_bass@apple.com

(310) 895-6508

Apple Media Helpline

media.help@apple.com

(408) 974-2042

COEX-8.152

COEX-
8.152

amazon music HD

HD MUSIC FOR ALL

Now at no extra cost

Try it free

Try 30 days free. Renews automatically after your free trial at $9.99 ($7.99 for Prime Members) with no extra charge for HD. New subscribers only. Limited time offer. Terms apply.

HEAR 75 MILLION SONGS IN HD

UNLIMITED ACCESS TO 75 MILLION SONGS IN HD

HEAR MUSIC THE WAY THE ARTIST INTENDED

OVER 7 MILLION SONGS IN ULTRA HD, UP TO 10X+ THE BITRATE

EXCLUSIVE ULTRA HD REMASTERED ALBUMS

WHY AMAZON MUSIC HD?

Learn more

Try it free

Try 30 days free. Renews automatically after your free trial at $9.99 ($7.99 for Prime Members) with no extra charge for HD. New subscribers only. Limited time offer. Terms apply.

This 30-day free trial offer applies only to the Amazon Music HD Individual Plan and is a limited time offer available only to new subscribers to Amazon Music Unlimited. After the promotional trial, your subscription to Amazon Music HD will automatically continue at the monthly price of $9.99 ($7.99 for Prime members) plus applicable tax until you cancel. This offer cannot be combined with any other offer. Digital content and services may only be available to customers located in the U.S. and are subject to the terms and conditions of Amazon Digital Services LLC. Offer limited to one per customer and account. Amazon reserves the right to modify or cancel the offer at any time. Offer is non-transferable and may not be resold. If you violate any of these terms, the offer will be invalid.

Back to top

Get to Know Us

Careers
Blog
About Amazon
Sustainability
Press Center
Investor Relations
Amazon Devices

Make Money with Us

Sell products on Amazon
Sell apps on Amazon
Become an Affiliate
Become a Delivery Driver
Start a package delivery business
Advertise Your Products
Self-Publish with Us
Host an Amazon Hub
› See More Make Money with Us

Amazon Payment Products

Amazon Rewards Visa Signature Cards
Amazon.com Store Card
Amazon Secured Card
Amazon Business Card
Amazon Business Line of Credit
Shop with Points
Credit Card Marketplace
Reload Your Balance
Amazon Currency Converter

Let Us Help You

Amazon and COVID-19
Your Account
Your Orders
Shipping Rates & Policies
Amazon Prime
Returns & Replacements
Manage Your Content and Devices
Amazon Assistant
Help

amazon

English | United States

Amazon Music
Stream millions of songs

Amazon Advertising
Find, attract, and engage customers

Amazon Drive
Cloud storage from Amazon

6pm
Score deals on fashion brands

AbeBooks
Books, art & collectibles

ACX
Audiobook Publishing Made Easy

Alexa
Actionable Analytics for the Web

Sell on Amazon
Start a Selling Account

Amazon Business
Everything For Your Business

Amazon Fresh
Groceries & More Right To Your Door

AmazonGlobal
Ship Orders Internationally

Home Services
Experienced Pros Happiness Guarantee

Amazon Ignite
Sell your original Digital Educational Resources

Amazon Web Services
Scalable Cloud Computing Services

Audible
Listen to Books & Original Audio Performances

Book Depository
Books With Free Delivery Worldwide

Box Office Mojo
Find Movie Box Office Data

ComiXology
Thousands of Digital Comics

DPReview
Digital Photography

East Dane
Designer Men's Fashion

Fabric
Sewing, Quilting & Knitting

Goodreads
Book reviews & recommendations

IMDb
Movies, TV & Celebrities

IMDbPro
Get Info Entertainment Professionals Need

Kindle Direct Publishing
Indie Digital & Print Publishing Made Easy

Amazon Photos
Unlimited Photo Storage Free With Prime

Prime Video Direct
Video Distribution Made Easy

Shopbop
Designer Fashion Brands

Amazon Warehouse
Great Deals on Quality Used Products

Whole Foods Market
America's Healthiest Grocery Store

Woot!
Deals and Shenanigans

Zappos
Shoes & Clothing

Ring
Smart Home Security Systems

eero WiFi
Stream 4K Video in Every Room

Blink
Smart Security for Every Home

Neighbors App

Amazon Subscription

PillPack

Amazon Renewed

Amazon Second Chance

Real-Time Crime & Safety Alerts

Boxes
Top subscription boxes – right to your door

Pharmacy Simplified

Like-new products you can trust

Pass it on, trade it in, give it a second life

Conditions of Use Privacy Notice Interest-Based Ads © 1996-2021, Amazon.com, Inc. or its affiliates

COEX-8.153

Five Things to Know About Spotify HiFi

newsroom.spotify.com/2021-02-22/five-things-to-know-about-spotify-hifi/

February 22, 2021

Artists and fans have told us that sound quality is important to them. We agree, and that's why today at Stream On we announced **Spotify HiFi**.

Beginning later this year, Premium subscribers in select markets will be able to upgrade their sound quality to Spotify HiFi and listen to their favorite songs the way artists intended.

Read on for five things you need to know about our new high-quality music experience:

1. High-quality music streaming is consistently one of the most requested new features by our users.
2. Spotify HiFi will deliver music in CD-quality, lossless audio format to your device and Spotify Connect-enabled speakers, which means fans will be able to experience more depth and clarity while enjoying their favorite tracks.
3. Ubiquity is at the core of everything we do at Spotify, and we're working with some of the world's biggest speaker manufacturers to make Spotify HiFi accessible to as many fans as possible through Spotify Connect.
4. HiFi will be coupled with Spotify's seamless user experience, building on our commitment to make sure users can listen to the music they love in the way they want to enjoy it.
5. Spotify HiFi will begin rolling out in select markets later this year, and we will have more details to share soon.

Want to learn more? Listen as American singer-songwriter Billie Eilish and record producer FINNEAS speak about the importance of high-quality audio options for creators and fans.

Watch Video At: https://youtu.be/W07MvWbuWkI

COEX-8.154

Spotify HiFi release date, price, quality, features, rumors and song catalog

techradar.com/news/spotify-hifi-release-date-price-quality-features-rumors-and-song-catalog

Nick Pino August 17, 2021

TechRadar is supported by its audience. When you purchase through links on our site, we may earn an affiliate commission. Learn more

(Image credit: Spotify)

For fans of high-fidelity audio, Spotify HiFi could be the Holy Grail. The service, unveiled earlier this year, will deliver some of your favorite songs in lossless, CD-quality audio to close the gap to services like Tidal.

According to Spotify, high-quality music streaming is consistently one of the most requested new features by its users who, previously, have been limited to 320kbps.

Higher-resolution audio is something Apple and Amazon have also addressed recently when the companies made Apple Lossless Audio and Amazon Music HD available to Apple Music and Amazon Music Unlimited subscribers at no extra cost – which could be a sign that they're preparing for the launch of Spotify HiFi.

They might be onto something. Recently, we've seen several signs that Spotify HiFi is close to launch. We've seen screenshots of the Spotify HiFi logo in the app as well as a Spotify HiFi onboarding video leaked by a Redditor.

Unfortunately, Spotify HiFi will only be available in “select markets” to start, and while Spotify hasn’t said *exactly* how much the service will cost just yet, it sounds like it’s going to be more than the basic Spotify Premium price of $9.99 / £9.99 / AU$11.99 per month and there’s no guarantee that every song in the entire Spotify catalog will have a HiFi version available.

The silver lining? We have good reason to believe that Spotify HiFi songs will be available to save and download to your devices for offline listening, which means you should be able to take your new lossless music library with you anywhere.

Ready to make the leap to lossless? Here's everything we know about Spotify HiFi.

Spotify HiFi: first look?

Recently, TechRadar had a reader email us photos of Spotify HiFi in use. While we've not been able to validate the images ourselves, the quality, font, variety and content suggests strongly that these are genuine.

The shared images show the HiFi icon in the lower right corner of the app and includes text about music playing at 16-bit/44.1kHz quality – though the reader says music wasn't playing in lossless quality.

More recently, a video that seems to show a welcome tour of the new streaming tier has been leaked online. It was posted by Reddit user Nickx000x (via What Hi-Fi?) with the caption 'Here's a sneak peek at the upcoming HiFi onboarding process from modifying the app', and appears to give prospective HiFi users a backstage tour of the service:

While the video hasn't been verified as legitimate by Spotify, the fact it's leaked at all suggests that the new HiFi tier will be launching very soon. In any case, Spotify said that the service would be available "later in 2021" when it was first announced, so an imminent release date certainly isn't out of the question.

Spotify HiFi release date

According to a Five Things to Know About Spotify HiFi blog post, Spotify says the new service will be available later in 2021 – and it will be available as an upgrade to Premium.

“Beginning later this year, Premium subscribers in select markets will be able to upgrade their sound quality to Spotify HiFi and listen to their favorite songs the way artists intended.”

That select markets bit is worth focusing on as it means we won’t see Spotify HiFi going live in every territory at the same time. Previously, when Spotify has rolled out new features it usually starts with the US and Europe, but now that the service is available in 80 new countries it’s hard to say which will be among the first to get the new service.

The other issue you'll run into for Spotify HiFi's release date is that it's unlikely that every Spotify Connect device will get the upgrade at the same time – which means some speakers like, say, the Sonos One and PS5 might get it long before your slightly older AV receiver.

The short answer is that the service will, in some capacity be available later this year, but which devices will be available at launch will remain a heated topic of conversation.

Spotify HiFi price

As of right now, there's no set price for Spotify HiFi. The company says that it will unveil more exact details later this year so, for now, all we can do is speculate.

If we had to put money on it, we'd say that Spotify HiFi will cost between $15-$20 per month here in the US. We know for sure that it's going to be more expensive than Spotify Premium – which already costs $9.99 per month – so between $14.99 and $19.99 feels like a safe bet.

What's also influencing that guess is the competition: a Tidal HiFi subscription will run you $19.99 per month, while Hi-Res Audio streaming services like Qobuz and Deezer HiFi cost $14.99 per month. Amazon Music Unlimited and Apple Music are a bit cheaper and now include lossless streaming options, and it's possible Spotify HiFi *could* be around the same price when it launches later this year.

Spotify HiFi streaming quality

So just how good will Spotify HiFi sound? It will supposedly sound, at the very least, as good as a CD does – and maybe a bit better.

According to Spotify, Spotify HiFi will stream in CD-quality lossless audio to your devices. Ideally, those devices will be connected to a network and capable of using Spotify Connect, otherwise you'll have to pipe it over Bluetooth which will likely diminish the quality.

That's a heck of a lot better than Spotify's current offering of 320kbps, and will likely bring the service's potential audio quality up to par with Tidal, Deezer and maybe even Apple's Digital Masters.

Speaking of Apple Digital Masters, there's always a chance that Spotify might also go above and beyond hi-fi with 96kHz / 24-bit audio, but we're not holding our breath.

So what does that all mean? In a very practical sense, lossless audio formats have more details and data than their lossy counterparts. That means hearing new details in songs you've never heard before that otherwise might've been cut out when the data was compressed. It should also sound a bit wider and more immersive, though, a lot of it will depend on which headphones or speakers you use, too.

Spotify HiFi song catalog

The murkiest detail of all for Spotify HiFi is how many – and which – songs from Spotify's more than 30 million-song catalog will be included.

The safest assumption we can make is that it won't support every song in Spotify's vast catalogue, but millions of them should be.

Among those will likely be top hits from major record labels which already distribute the files to other services, while some music from smaller labels and older legacy titles likely won't make the cut. We'll keep our ears to the ground for more details on which songs will make the cut, but for now it's probably best to keep your CD collection right where it is until new details emerge.

That said, however, what we can say for sure is that Spotify HiFi will allow you to take your songs with you wherever you go – some recent screenshots of Spotify HiFi explain that the feature will still work with HiFi music and Spotify encourages you to download them if you're headed somewhere without good reception.

> Here's everything you need to know about spatial audio

Nick Pino is the Senior Editor of Home Entertainment at TechRadar and covers TVs, headphones, speakers, video games, VR and streaming devices. He's written for TechRadar, GamesRadar, Official Xbox Magazine, PC Gamer and other outlets over the last decade, and he has a degree in computer science he's not using if anyone wants it.

See more Audio news

COEX-8.155

COEX-
8.155

Hello
Select your address

All

Hello, Sign in
Account & Lists

Returns
& Orders

0

All Sell Best Sellers Prime Customer Service New Releases Today's Deals Pharmacy Books Registry Fashion Kindle Books

Included with Prime Student

PRIME DELIVERY | PRIME VIDEO | EARLY ACCESS TO DEALS | PRIME MUSIC

PRIME READING | AMAZON WAREHOUSE | PRIME EXCLUSIVES | AMAZON PHOTOS

Students, worry less with extra savings and deals

FREE food delivery, included with Prime Student
Terms apply.
GRUBHUB + student

3 months free, then ~~$69.99~~ $8.99/year
Terms apply.
Calm

Up to 10% off flights and hotels
10% off
Terms apply.
StudentUniverse

1 month free. 24/7 homework help and more.
Cancel anytime. Terms apply.
Course Hero

Entertainment at your fingertips

Up to 1 year for ~~$10.99~~ 99¢/mo.
Terms Apply. Limited time offer.
prime video CHANNELS | SHOWTIME

Up to 1 year for ~~$4.99~~ 99¢/mo.
Terms Apply. Limited time offer.
amazon music UNLIMITED

2 months of Kindle Unlimited for free
Terms Apply. Limited time offer.
kindleunlimited

Up to 1 year for ~~$5.99~~ 99¢/mo.
Terms Apply. Limited time offer.
prime video CHANNELS | epix

COEX-
8.155

Up to 1 year for $4.99 99¢/mo.
Terms Apply. Limited time offer.
prime video CHANNELS | allblk

Up to 1 year for $4.99 99¢/mo.
Terms Apply. Limited time offer.
prime video CHANNELS | MOTORTREND

Up to 1 year for $5.99 99¢/mo.
Terms Apply. Limited time offer.
prime video CHANNELS | SHUDDER

Up to 1 year for $5.99 99¢/mo.
Terms Apply. Limited time offer.
prime video CHANNELS | ACORN TV

Up to 1 year for $4.99 99¢/mo.
Terms Apply. Limited time offer.
prime video CHANNELS | HISTORY vault

Up to 1 year for $5.99 99¢/mo.
Terms Apply. Limited time offer.
prime video CHANNELS | PANTAYA

Up to 1 year for $3.99 99¢/mo.
Terms Apply. Limited time offer.
prime video CHANNELS | LIFETIME MOVIE CLUB

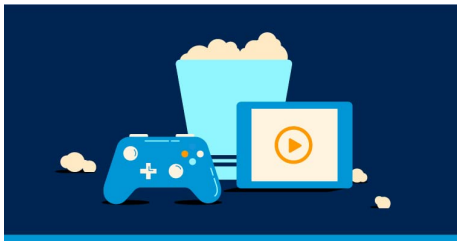
Up to 1 year for $6.99 99¢/mo.
Terms Apply. Limited time offer.
prime video CHANNELS | SUNDANCE NOW

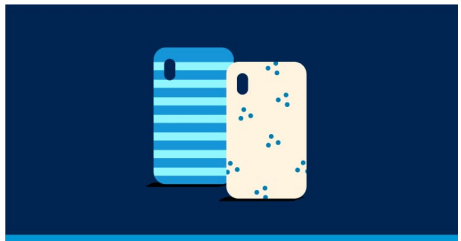
Shopping made easier

Save $45 on Kindle
With Promo Code
KINDLE45
Terms Apply. Limited time offer.
kindle

$5 off your first purchase from Amazon Warehouse with code "5OFFAW"
amazon warehouse

Deals on college essentials


Video games


Phone cases and accessories

Computers and accessories

Health and personal care

Snacks and groceries

Apparel and accessories

Try Prime Student for free! Cancel anytime.

START YOUR 6-MONTH TRIAL

COEX-
8.155

Back to top

Get to Know Us

- Careers
- Blog
- About Amazon
- Sustainability
- Press Center
- Investor Relations
- Amazon Devices

Make Money with Us

- Sell products on Amazon
- Sell apps on Amazon
- Become an Affiliate
- Become a Delivery Driver
- Start a package delivery business
- Advertise Your Products
- Self-Publish with Us
- Host an Amazon Hub
- › See More Make Money with Us

Amazon Payment Products

- Amazon Rewards Visa Signature Cards
- Amazon.com Store Card
- Amazon Secured Card
- Amazon Business Card
- Amazon Business Line of Credit
- Shop with Points
- Credit Card Marketplace
- Reload Your Balance
- Amazon Currency Converter

Let Us Help You

- Amazon and COVID-19
- Your Account
- Your Orders
- Shipping Rates & Policies
- Amazon Prime
- Returns & Replacements
- Manage Your Content and Devices
- Amazon Assistant
- Help

English | United States

Amazon Music
Stream millions of songs

Amazon Advertising
Find, attract, and engage customers

Amazon Drive
Cloud storage from Amazon

6pm
Score deals on fashion brands

AbeBooks
Books, art & collectibles

ACX
Audiobook Publishing Made Easy

Alexa
Actionable Analytics for the Web

Sell on Amazon
Start a Selling Account

Amazon Business
Everything For Your Business

Amazon Fresh
Groceries & More Right To Your Door

AmazonGlobal
Ship Orders Internationally

Home Services
Experienced Pros Happiness Guarantee

Amazon Ignite
Sell your original Digital Educational Resources

Amazon Web Services
Scalable Cloud Computing Services

Audible
Listen to Books & Original Audio Performances

Book Depository
Books With Free Delivery Worldwide

Box Office Mojo
Find Movie Box Office Data

ComiXology
Thousands of Digital Comics

DPReview
Digital Photography

East Dane
Designer Men's Fashion

Fabric
Sewing, Quilting & Knitting

Goodreads
Book reviews & recommendations

IMDb
Movies, TV & Celebrities

IMDbPro
Get Info Entertainment Professionals Need

Kindle Direct Publishing
Indie Digital & Print Publishing Made Easy

Amazon Photos
Unlimited Photo Storage Free With Prime

Prime Video Direct
Video Distribution Made Easy

Shopbop
Designer Fashion Brands

Amazon Warehouse
Great Deals on Quality Used Products

Whole Foods Market
America's Healthiest Grocery Store

Woot!
Deals and Shenanigans

Zappos
Shoes & Clothing

Ring
Smart Home Security Systems

eero WiFi
Stream 4K Video in Every Room

Blink
Smart Security for Every Home

Neighbors App
Real-Time Crime & Safety Alerts

Amazon Subscription Boxes
Top subscription boxes – right to your door

PillPack
Pharmacy Simplified

Amazon Renewed
Like-new products you can trust

Amazon Second Chance
Pass it on, trade it in, give it a second life

Conditions of Use Privacy Notice Interest-Based Ads © 1996-2021, Amazon.com, Inc. or its affiliates

COEX-8.156

COEX-
8.156

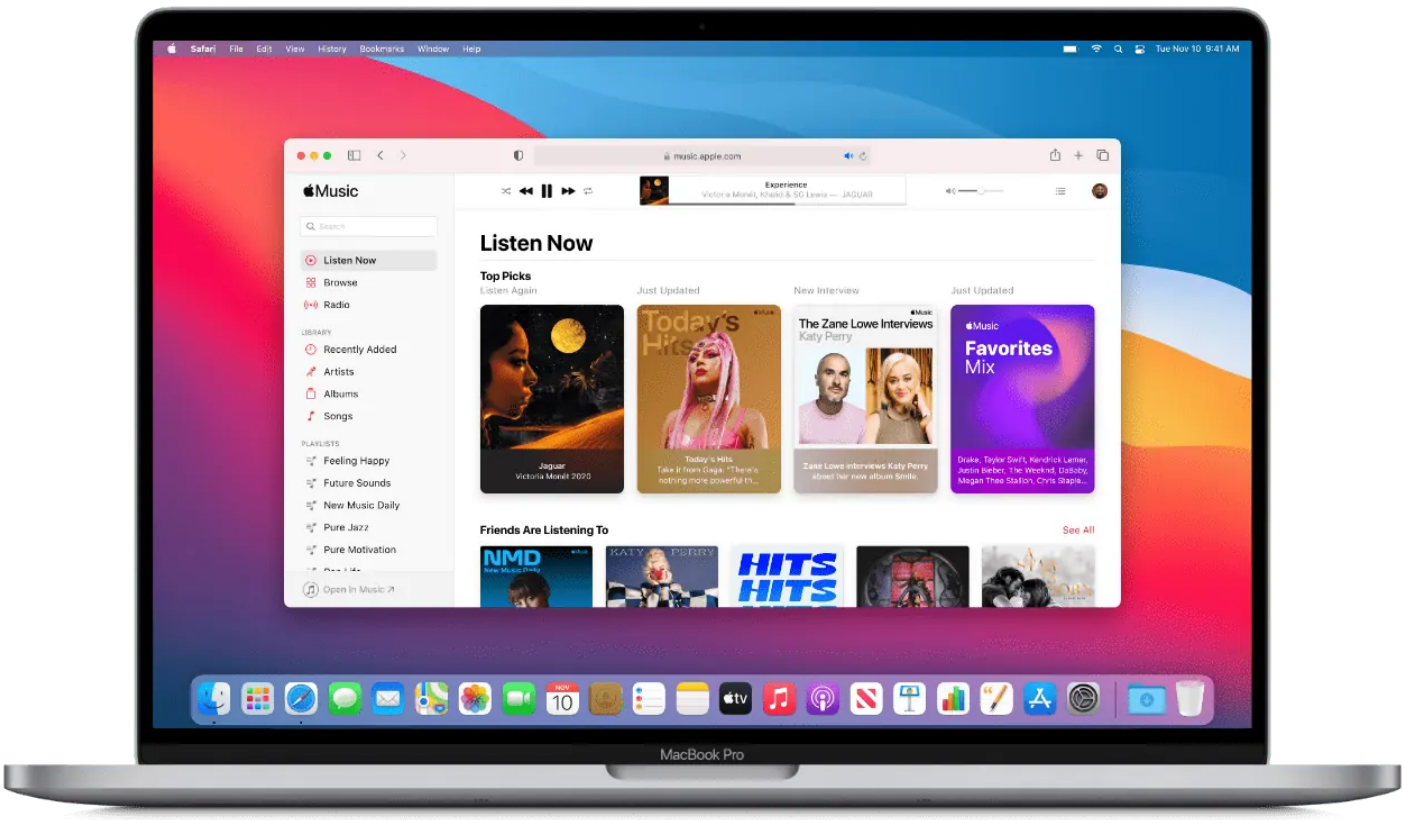
Music

Discover new music every day.

Get playlists and albums inspired by the
artists and genres you're listening to.
3 months free, then $9.99/month.

Try It Free

Learn More ›



COEX-8.157

COEX-
8.157

Sign in

MUSIC

Enjoy Apple Music, on us.

Apple Music is included in select Unlimited plans. Get More Unlimited 5G UW, Get More Unlimited, and Play More Unlimited (subscribed before 8/20/20) qualify for Apple Music inclusion. Other Unlimited plans, including Start Unlimited, Play More Unlimited 5G UW (subscribed on or after 8/20/20), and Do More Unlimited qualify for Apple Music on us for 6 months, then $9.99 per month after for each line enrolled. Taxes apply. Each line on account will reflect applicable promotion or inclusion eligibility. Maximum of one 6 month promotion per life of line. Must enroll by 10/18/21.

You must remain on a qualified Unlimited plan to retain your Apple Music offer. If you switch your plan from Play More or Get More Unlimited to a non-qualifying plan and have activated Apple Music, your Apple Music subscription will be billed $9.99/mo.

If you're new to Apple Music, you'll need to create an Apple ID or link your existing Apple ID.

If you already subscribe to Apple Music, when you sign in to Apple Music with your Apple ID you'll be directed to cancel your duplicate Apple Music subscription. If you want to take advantage of your included subscription of Apple Music, cancel your current subscription through Apple Music via Settings. For Android users, navigate to Account Settings, Manage Membership and turn off Automatic Renewal . For iPhone users hit Cancel Subscription. Don't worry, all of your saved content and settings are linked to your Apple ID.

Once your subscription is activated, you can manage or cancel your subscription through vzw.com/applemusic or in the "Add-ons" section of the My Verizon app under "Account."

Here's how you activate your Apple Music subscription:

- Visit vzw.com/applemusic on your desktop or mobile browser, or "Add-ons" in the My Verizon app under "Account."
- Select the lines you want to enroll in Apple Music and accept the Terms and Conditions.
- Each line will get a text message with a link to download or open the Apple Music app.
- Once your subscription is activated, you can manage or cancel your subscription through vzw.com/applemusic or in the "Add-ons" section of the My Verizon app under "Account."

Keep in mind that only Account Owners or Managers can activate Apple Music for any line on the account, so you'll need their help to activate Apple Music if you're an Account Member.

Learn more

COEX-8.158

COEX-
8.158

YouTube Search SIGN IN

YouTube Music

Get Music Premium to listen ad-free, offline & with your screen off

TRY IT FREE

1-month free trial • Then $9.99/month

We'll remind you 7 days before your trial ends

Free trial for eligible new members only • Recurring billing • Cancel anytime

Family • 1-month free trial • Then $14.99/month

Add up to 5 family members (ages 13+) in your household. Learn more

TRY IT FREE

Student • 1-month free trial • Then $4.99/month

Eligible students only. Annual verification required.

TRY IT FREE

Restrictions apply. Learn more here.

A music app from YouTube

This is a new music service with a completely reimagined app and desktop product.

Find the music you want

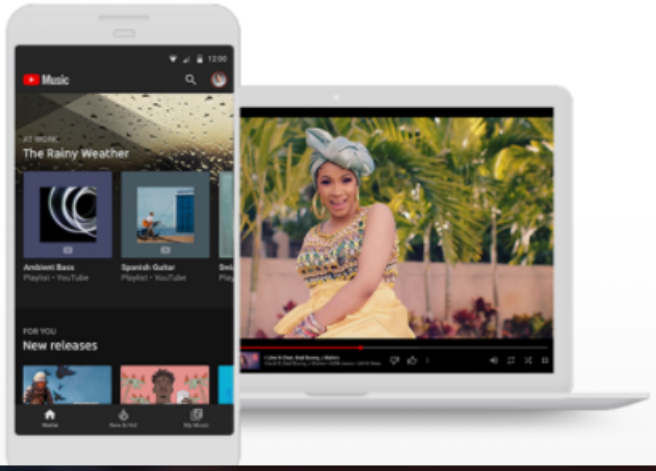
Easily find albums, live performances & remixes by searching lyrics or describing the song.

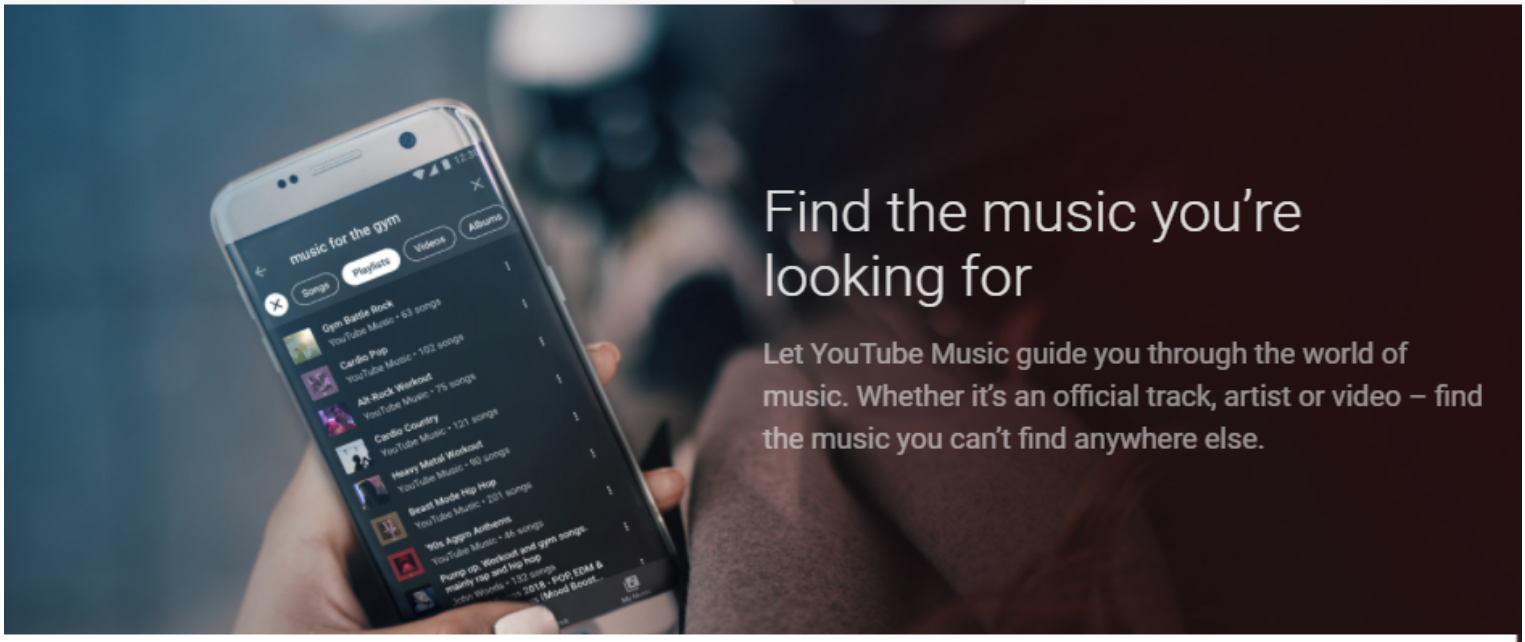
Effortless discovery

Get new music served to you based on your tastes and what's moving the community around you.

A new music streaming service

YouTube Music is a completely reimagined app and desktop product with official albums, playlists, singles and more.



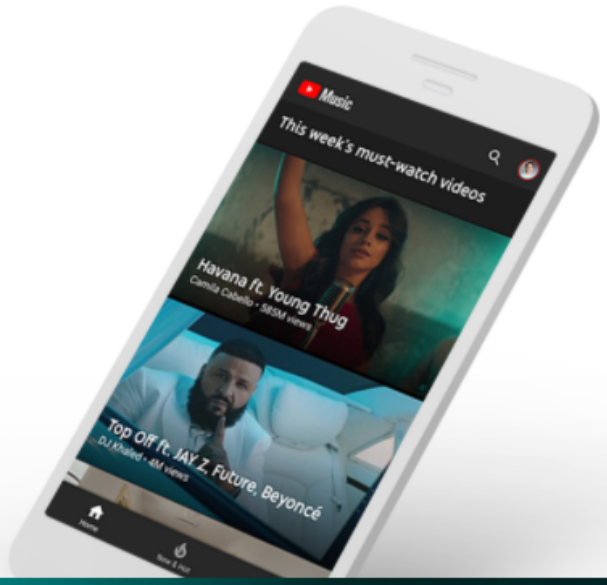


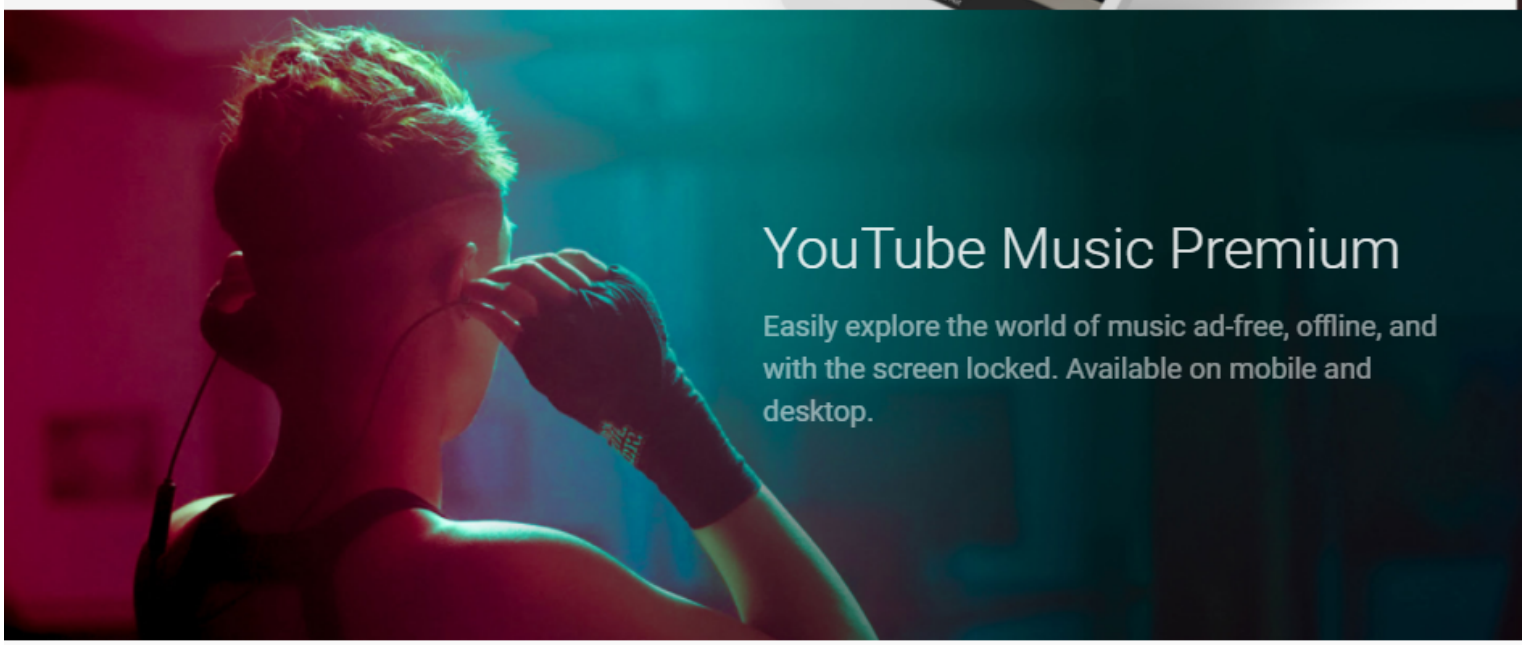
Find the music you're looking for

Let YouTube Music guide you through the world of music. Whether it's an official track, artist or video – find the music you can't find anywhere else.

Discover new music and see what's trending

YouTube Music serves music based on your tastes and what's moving the community around you. Discover something new or keep up with what's trending.





YouTube Music Premium

Easily explore the world of music ad-free, offline, and with the screen locked. Available on mobile and desktop.

Have other questions? Visit the YouTube Help Center

COEX-8.159

COEX-
8.159

Spotify

(https://www.spotify.com/us/)

Get 3 months of Spotify Premium for free

Choose PayPal from the dropdown at checkout to sign up quickly and securely.

(/CLAIM/PAYPAL/REDEEM)
START FREE TRIAL

Offer is for Premium Individual. $9.99/after trial. Cancel anytime. Only open to users who haven't tried Premium before. Offer valid until until July 1, 2021. **Terms and Conditions (https://www.spotify.com/legal/premium-individual-3-month-trial-terms/)** apply.

Spotify

(https://www.spotify.com/us/)

COMPANY

About (https://www.spotify.com/us/about-us/contact/)

Jobs (https://www.spotifyjobs.com/)

For the Record (https://newsroom.spotify.com/)

COEX-
8.159

Spotify ES

(https://www.spotify.com/us/)
For Artists (https://artists.spotify.com/)

Developers (https://developer.spotify.com/)

Advertising (https://ads.spotify.com/)

Investors (https://investors.spotify.com/)

Vendors (https://spotifyforvendors.com/)

USEFUL LINKS

Support (https://support.spotify.com/)

Web Player (https://open.spotify.com/)

Free Mobile App (https://www.spotify.com/us/free/)

gram. itter.cc ıceboc

USA(https://www.spotify.com/us/select-your-country-region/)

Legal(https://www.spotify.com/us/legal/) Privacy Center(https://www.spotify.com/us/privacy/)

© 2021 Spotify AB

Privacy Policy(https://www.spotify.com/us/legal/privacy-policy/)

Cookies(https://www.spotify.com/us/legal/cookies-policy/)

About Ads(https://www.spotify.com/us/legal/privacy-policy/#s3)

Additional CA Privacy Disclosures(https://www.spotify.com/us/legal/California-privacy-disclosure/)

COEX-8.160

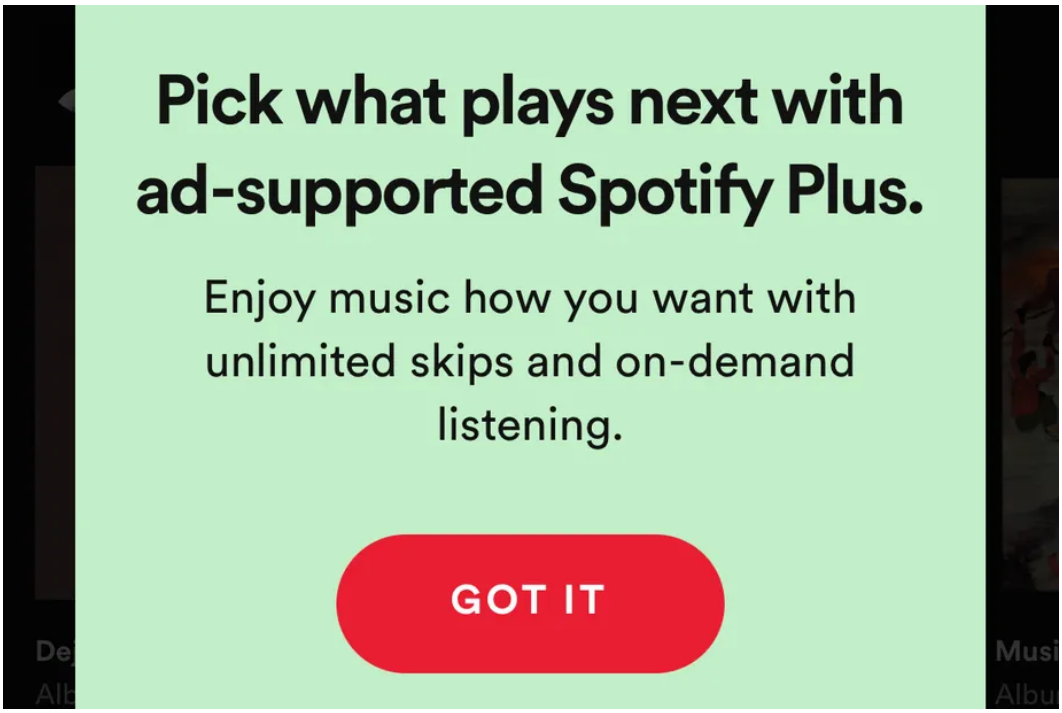
Spotify is testing a less restrictive ad-supported tier costing $0.99 a month

theverge.com/2021/8/3/22607203/spotify-plus-ad-supported-tier-unlimited-skips-on-demand-listening

Jon Porter August 3, 2021

New, 14 comments

Spotify Plus is being piloted with a ‘limited number’ of users



‘Unlimited skips and on-demand listening’ for $0.99 a month.
Screenshot: Spotify

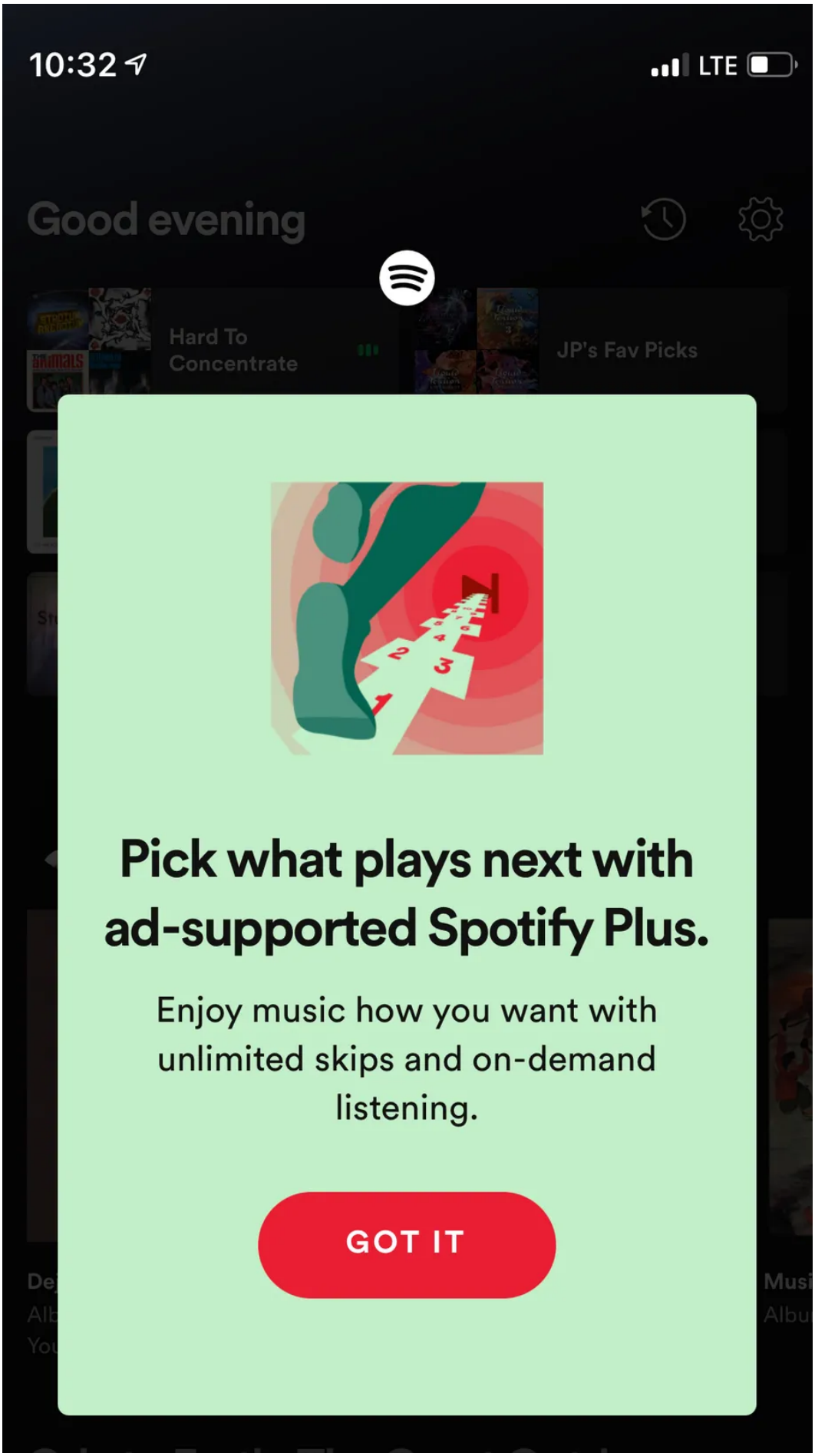
Spotify Plus is a new low-cost subscription tier being piloted by the streaming service which combines elements of its existing free and premium tiers. The plan still features ads like Spotify’s free tier, but it doesn’t impose any limits on the number of tracks you can skip per hour. Users are also free to pick which specific songs they want to listen to, rather than mostly being limited to shuffling within albums and playlists.

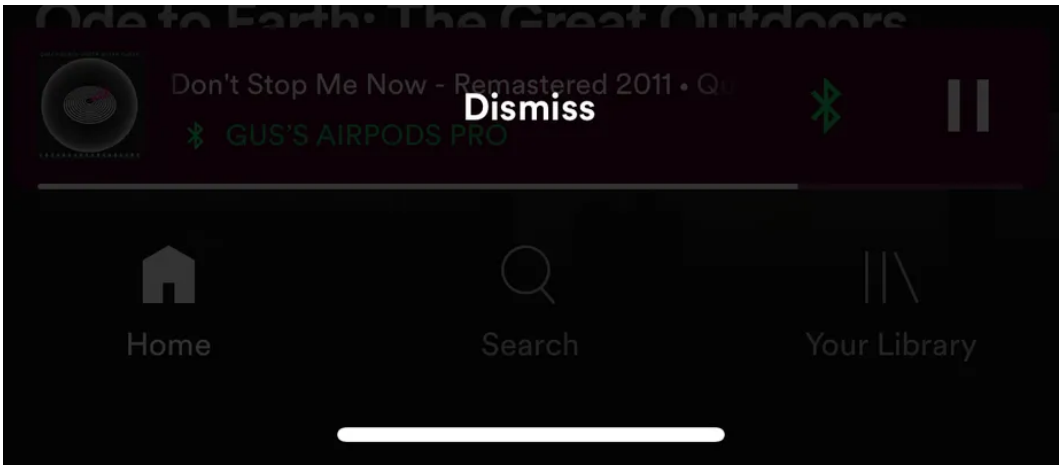
At least one user has seen Spotify Plus being advertised at $0.99 a month (a tenth of the cost of its standard $9.99 premium tier), but it’s understood that Spotify’s test involves offering the new plan randomly at a variety of price points to gauge user interest.

Spotify’s free tier has existed in its current form since 2018. It doesn’t let users skip more than six tracks per hour, and only lets them pick and listen to specific tracks from 15 select playlists, ranging from editorial-selected playlists to algorithmically generated collections like

“Discover Weekly” and “Daily Mix.” Outside of these playlists, free users can only listen to shuffled tracks. The new Spotify Plus tier is a relatively cheap way to reduce some of those restrictions.

Spotify Plus is ad-supported, but comes with a subscription cost. Image: Spotify


10:32
LTE
Good evening
Hard To Concentrate
JP's Fav Picks
Pick what plays next with ad-supported Spotify Plus.
Enjoy music how you want with unlimited skips and on-demand listening.
GOT IT



In-app ads for the tier have also been appearing for some users.
Screenshot: Spotify

News of the new test tier was initially shared with *The Verge* by a reader (*thanks, Gustovo!*) and later confirmed by Spotify in a statement. “We’re always working to enhance the Spotify experience and we routinely conduct tests to inform our decisions,” a spokesperson said. “We’re currently conducting a test of an ad-supported subscription plan with a limited number of our users.”

However, Spotify cautioned that there’s no guarantee that the new tier will launch in its current form. “Some tests end up paving the way for new offerings or enhancements while others may only provide learnings. We don’t have any additional information to share at this time.”

Spotify has a history of testing new features years before they actually launch, if they ever release at all. The best example of this is lossless audio streaming, which Spotify was testing as far back as 2017. Although the service officially announced its lossless “HiFi” tier earlier this year, it’s still yet to become available. Other tests include Snapchat-like stories for select playlists and visual quote cards for podcasts, both of which no longer appear to be visible in the app.

Update August 3rd, 7:34AM ET: *Updated to confirm Spotify Plus is being offered at a variety of price points as part of the experiment.*

Next Up In Tech

Loading comments...

COEX-8.161
RESTRICTED
FILED UNDER SEAL

COEX-8.162

Help & Customer Service

‹ All Help Topics

Amazon Music

What are the Differences Between the Amazon Music Subscriptions?
Cancel Amazon Music Unlimited Subscription
What is 3D Audio?
What is Amazon Music HD?
Cancel Amazon Music HD Subscription
What is Amazon Music Unlimited?
What is Amazon Music Prime?

Quick solutions

Prime Video
Manage preferences & settings

Apps & Devices
Install or remove apps

Digital Purchases
View purchased books & apps

Manage Your Music
Manage your music & playlists

Digital Services and Device Support
Device user guides & troubleshooting

Your Amazon Drive
Sync photos & files

Digital & Device Forum
Ask the community

Contact Us

Find more solutions

Digital Services & Content › Amazon Music › Popular Topics ›

What are the Differences Between the Amazon Music Subscriptions?

Listen to your favorite songs online and choose the subscription that best suits your needs.

Amazon Music Free provides free access to top playlists and thousands of stations and includes ads.

Amazon Music Prime is included with your Amazon Prime membership.

With Amazon Music Unlimited, you get all of the great features and functionality of Amazon Music Prime and a lot more.

Amazon Music HD is a premium quality music subscription with 75 million songs in HD and millions of songs in UHD. A growing catalog of songs mastered in Dolby Atmos and Sony's 360 Reality Audio codecs are available in 3D audio on the Amazon Echo Studio.

To view available subscription plans and pricing, go to Get Amazon Music Unlimited

Feature	Amazon Music Free	Amazon Music Prime	Amazon Music Unlimited	Amazon Music HD
Amazon Prime Membership Needed	No	Yes	No	No
Available Titles	Top playlists. Thousands of Stations.	2 million songs. Thousands of playlists. Personalized streaming Stations.	75 million songs. Thousands of playlists. Personalized streaming Stations.	75 million songsp in High Definition (HD). Millions of songs in Ultra HD (UHD). A growing catalog of songs in 3D on Amazon Echo Studio. Thousands of playlists. Personalized streaming Stations.
Stations	Yes	Yes	Yes	Yes

Feature	Amazon Music Free	Amazon Music Prime	Amazon Music Unlimited	Amazon Music HD
HD	No	No	No	Yes
Ultra HD	No	No	No	Yes
3D	No	No	No	Yes 3D audio is available on Amazon Echo Studio device only.
Ad-free, Unlimited Plays	No	Yes	Yes	Yes
Supported Devices	Supported Echo devices. A growing list of Alexa-enabled devices. iOS Android Fire TV devices Fire Tablet Amazon Music for Web	All Amazon Music supported devices.	All Amazon Music supported devices. **Amazon Music Single-Device Plan**: Echo devices Fire TV devices	Echo devices Sonos speakers Fire TV devices iOS Android Desktop
Streaming Limits	One device at a time	One device at a time	**Amazon Music Unlimited Individual Plan:** One device at time. **Amazon Music Unlimited Family Plan**: Six devices at a time. **Amazon Music Single-Device Plan**: One compatible device at a time	**Amazon Music Unlimited Individual Plan:** One device at time. **Amazon Music Unlimited Family Plan**: Six devices at a time.
Alexa Interaction	Yes	Yes	Yes	Yes

Feature	Amazon Music Free	Amazon Music Prime	Amazon Music Unlimited	Amazon Music HD
Offline Playback	No	Yes	**Amazon Music Unlimited Family Plan**: Yes **Amazon Music Unlimited Individual Plan**: Yes **Amazon Music Single-Device Plan**: No	Yes **Note:** 3D audio is not available for offline playback.
Podcasts	Yes	Yes	Yes	Yes
Live Feature	Yes	Yes	Yes	Yes

Was this information helpful?

Yes No

Back to top

COEX-
8.162

Sell on Amazon
Start a Selling Account

Amazon Business
Everything For Your Business

Amazon Fresh
Groceries & More Right To Your Door

AmazonGlobal
Ship Orders Internationally

Home Services
Experienced Pros Happiness Guarantee

Amazon Ignite
Sell your original Digital Educational Resources

Amazon Web Services
Scalable Cloud Computing Services

Audible
Listen to Books & Original Audio Performances

Book Depository
Books With Free Delivery Worldwide

Box Office Mojo
Find Movie Box Office Data

ComiXology
Thousands of Digital Comics

DPReview
Digital Photography

East Dane
Designer Men's Fashion

Fabric
Sewing, Quilting & Knitting

Goodreads
Book reviews & recommendations

IMDb
Movies, TV & Celebrities

IMDbPro
Get Info Entertainment Professionals Need

Kindle Direct Publishing
Indie Digital & Print Publishing Made Easy

Amazon Photos
Unlimited Photo Storage Free With Prime

Prime Video Direct
Video Distribution Made Easy

Shopbop
Designer Fashion Brands

Amazon Warehouse
Great Deals on Quality Used Products

Whole Foods Market
America's Healthiest Grocery Store

Woot!
Deals and Shenanigans

Zappos
Shoes & Clothing

Ring
Smart Home Security Systems

eero WiFi
Stream 4K Video in Every Room

Blink
Smart Security for Every Home

Neighbors App
Real-Time Crime & Safety Alerts

Amazon Subscription Boxes
Top subscription boxes – right to your door

PillPack
Pharmacy Simplified

Amazon Renewed
Like-new products you can trust

Amazon Second Chance
Pass it on, trade it in, give it a second life

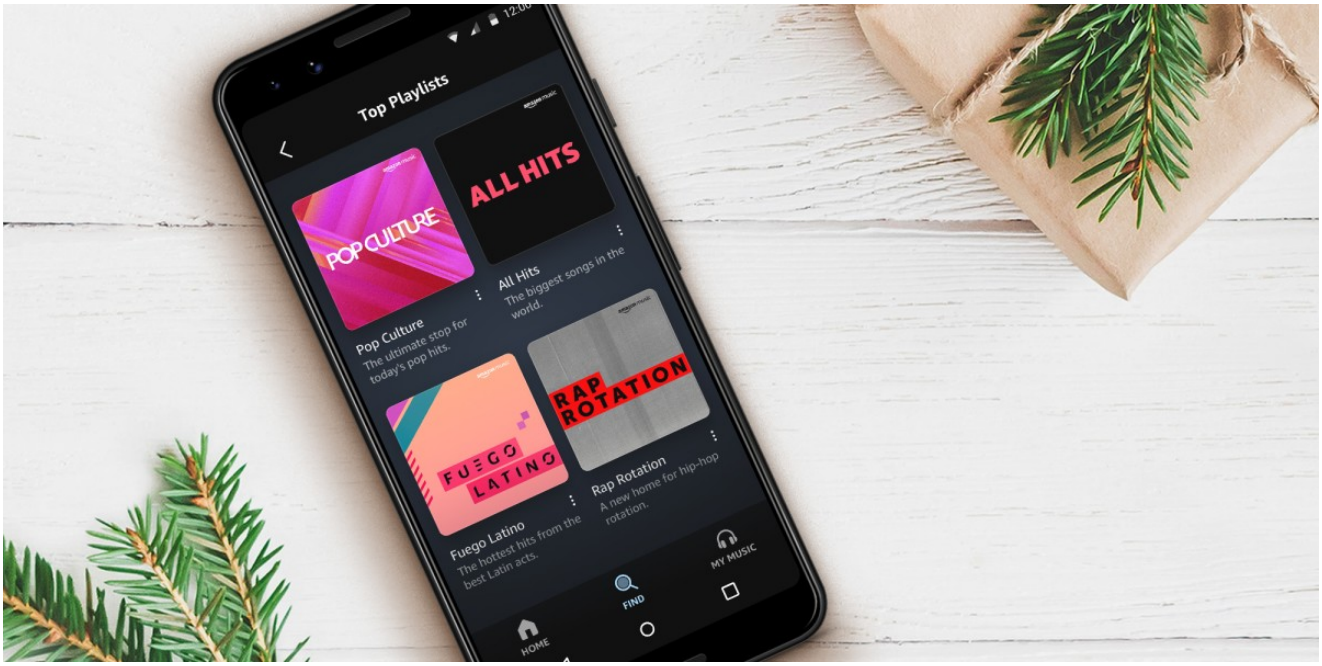
Conditions of Use Privacy Notice Interest-Based Ads © 1996-2021, Amazon.com, Inc. or its affiliates

COEX-8.163

Amazon Music gives the gift of free streaming

aboutamazon.com/news/entertainment/amazon-music-gives-the-gift-of-free-streaming

November 18, 2019



Top playlists and thousands of stations are now available to stream on even more devices, for free.

Beginning today, Amazon Music customers who do not yet have a Prime membership, or a subscription to Amazon Music Unlimited, can now listen to an ad-supported selection of top playlists and thousands of stations for free on their favorite devices. Previously only available to customers on Echo devices, today's news expands access to customers using the Amazon Music app on iOS, Android, and FireTV. Customers can also listen to this music on the web.

Now, customers in the U.S., UK, and Germany will be able to enjoy more music with no subscription or credit card required. Music fans will be able to play thousands of stations based on any song, artist, era, and genre; hear top global playlists; and the best in Holiday tunes.

Listen on your favorite devices to enjoy top playlists and stations

- "All Hits," a playlist featuring the biggest songs in the world.
- "Fuego Latino," a collection of the week's hottest Latin tracks.
- "Country Heat," the ultimate playlist for today's country music fan.
- The "Holiday Favorites" station, for the iconic songs that define the yuletide season.
- "Rap Rotation," the new home for rap in heavy rotation.

Want music without ads? Prime members have access to a catalog of more than 2 million songs, plus thousands of playlists and stations, all ad-free, at no additional cost to their Prime membership. Music fans who want access to 50 million songs and all the latest new releases can enjoy 4 months of Amazon Music Unlimited, our premium ad-free music subscription service, for only $0.99.

Learn more about Amazon Music.

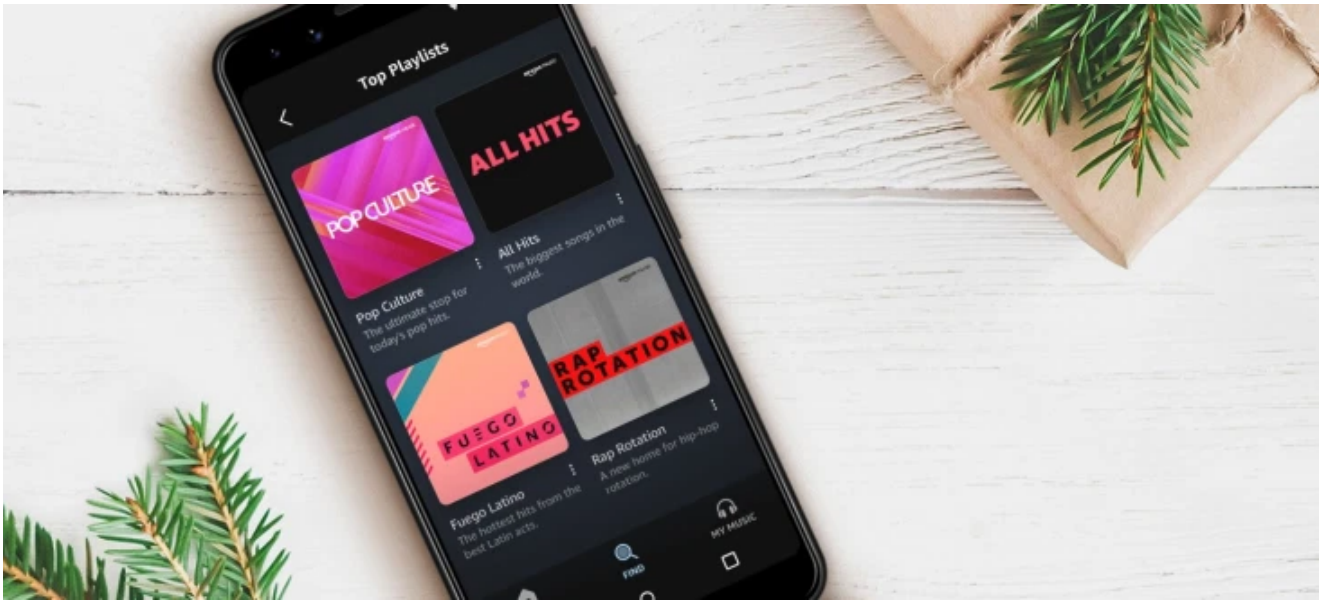
COEX-8.164

Amazon makes its music streaming service free with ads

techcrunch.com/2019/11/19/amazon-makes-its-music-streaming-service-free-with-ads/

Sarah Perez

Sarah Perez @sarahintampa / 2 years



Amazon is making its music streaming service free. The company previously offered free, ad-supported streaming only to customers who owned an Amazon Echo device. Now it's rolling out free streaming to anyone using the Amazon Music app on iOS, Android, Fire TV and Amazon Music on the web in the U.S., U.K., and Germany.

The company has been steadily making its music streaming service more accessible by reducing prices. Earlier this year, for example, Amazon said it would no longer charge the $3.99 per month for streaming from Amazon Music Unlimited to Echo devices or require customers to pay for Amazon Prime in order to gain access to Prime Music's smaller, 2+ million song catalog. Instead, it rolled out an ad-supported version of Amazon Music for free to Echo owners.

This is basically the same 2 million song catalog that comes with Prime Music, it just includes advertising and doesn't require Prime membership.

Now, it's making Amazon Music free for anyone — Echo owner or not — across a range of devices. This will allow users to play thousands of stations based on any song, artist, era, or genre, similar to Pandora. They'll also gain access to top playlists, like "All Hits" featuring the world's top songs, or the "Holiday Favorites" station, among others.

The move doesn’t really threaten paid subscription services like Spotify or Pandora’s premium tier or Apple Music, as Amazon’s free service has a much smaller catalog. It’s also not nearly as advanced in terms of its personalization technology, which powers things like Spotify’s Discover Weekly and other custom playlists. These are a big draw for music fans, and a reason they opt for one streaming service over another.

Instead, Amazon’s free music service serves more as a way to upsell consumers by encouraging them to join Amazon Prime in order to remove the ads from their music. (Prime Music’s 2 million songs are an added perk of a Prime subscription.) This is Amazon’s true motive: lock in more customers to Amazon Prime, ensure they realize the value of the free shipping and other benefits, then get them to renew every year. Once a Prime member, people will shop more often from Amazon, which is where the retailer’s profits lie.

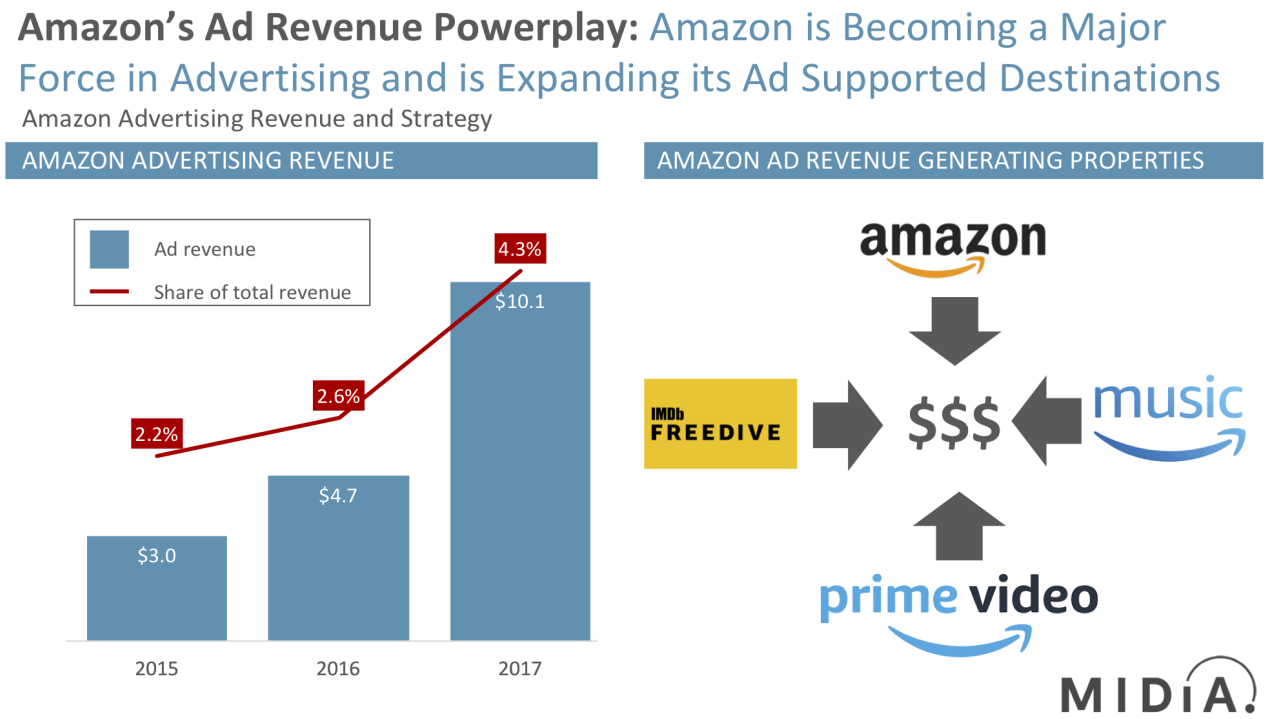
The free music service also serves as an entry point into Amazon’s wider music ecosystem. If customers decide they want a larger, ad-free catalog, they can up to join Amazon Music Unlimited instead, which offers 50 million songs at $7.99 per month for Prime members, or $9.99 per month for others. And true audiophiles can upgrade to Amazon Music HD for $12.99 per month for Prime members, or $14.99 per month for non-members.

For the time being, Amazon is offering 4 months of Amazon Music Unlimited for $0.99.

COEX-8.165

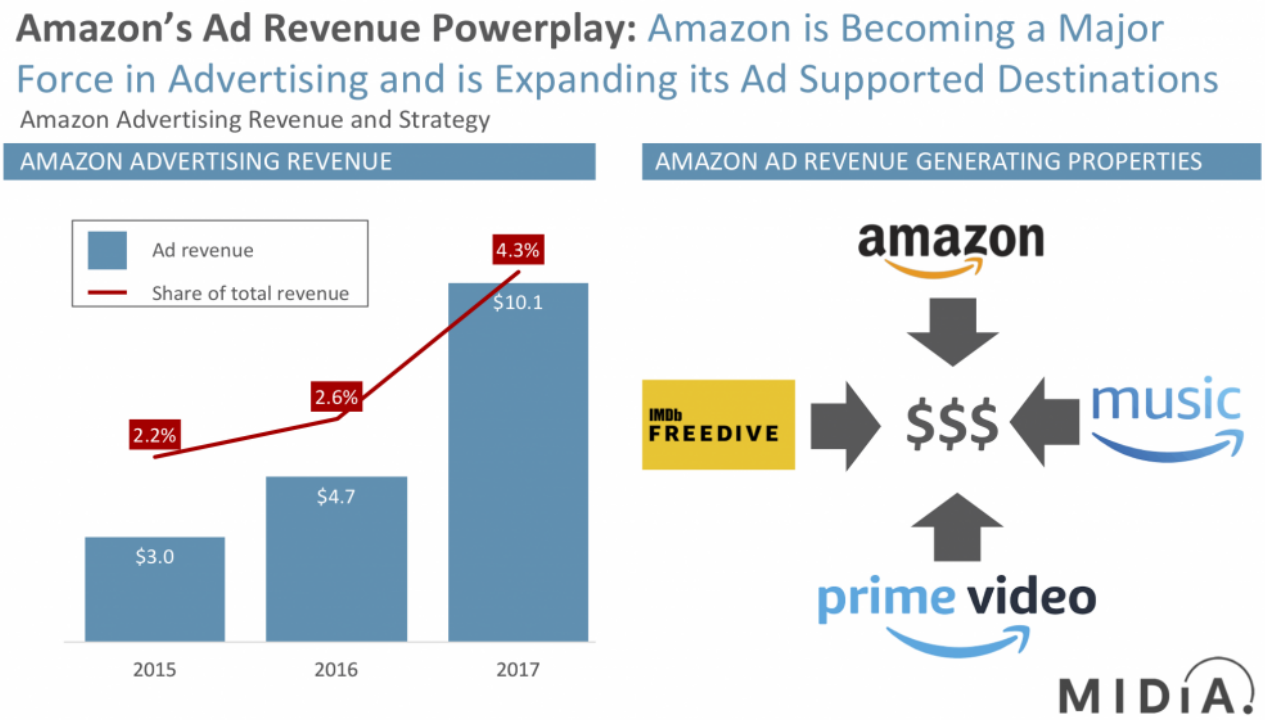
Amazon's Ad Supported Strategy Goes Way Beyond Music

midiaresearch.com/blog/amazons-ad-supported-strategy-goes-way-beyond-music



by Mark Mulligan
17 Apr 2019

Amazon is reportedly close to launching an ad supported streaming music offering. Spotify's stock price took an instant tumble.But the real story here is much bigger than the knee-jerk reactions of Spotify investors. What we are seeing here is Amazon upping the ante on a bold and ambitious ad revenue strategy that is helping to reformat the tech major landscape. The long-term implications of this may be that it is Facebook that should be worrying, not Spotify.



In 2018 Amazon generated $10.1 billion in advertising revenue, which represented 4.3% of Amazon's total revenue base. While this is still a minor revenue stream for Amazon, it is growing at a fast rate, more than doubling in 2018 while all other Amazon revenue collectively grew by just 29%. Amazon's ad business is growing faster than the core revenue base, to the extent that advertising accounted for 10% of all of Amazon's growth in 2018.

Amazon is creating new places to sell advertising

The majority of Amazon's 2018 ad revenue came from selling inventory on its main platform. This entails having retailers advertise directly to consumers on Amazon, so that Amazon gets to charge its merchants for the privilege of finding consumers to sell to, the final transaction of which it then also takes a cut of. In short, Amazon gets a share of the upside (i.e. the transaction) and of the downside (i.e. ad money spent on consumers who do not buy). This compressed, redefined purchase funnel is part of a wider digital marketing trend and underlines one of MIDiA's Four Marketing Principles.

But as smart a business segment as that might be to Amazon, it inherently skews towards the transactional end of marketing, and is less focused on big brand marketing, which is where the big ad dollar deals lie. TV and radio are two of the traditional homes of brand marketing and that is where Amazon has its sights set, or rather on digital successors for both:

- **Video:**Amazon's key video property Prime Video is ad free. However, it has been using sports as a vehicle for building out its ad sales capabilities and has so far sold ads against the NFL's Thursday Night Football. It also appears to be poised to roll this out much further. However, Amazon's key move was the January launch of an entire ad-supported video platform, IMDb Freedive. Amazon has full intentions to become a major player in the video ad business.
- **Music:**Thus far, Amazon's music business has been built around bundles (Prime Music) and subscriptions (Music Unlimited). Should it go the ad-supported route, Amazon will be replicating its video strategy to create a means for building new audiences and new revenue.

It's all about the ad revenue

Right now, Amazon is a small player in the global digital ad business, with just 6% of all tech major ad revenue. However, it is growing fast and has Facebook in its sights. Facebook's $50 billion of ad revenue in 2018 will feel like an eminently achievable target for a company that grew from $2.9 billion to $10.1 billion in just two years.

To get there, Amazon is committing to a bold, multi-platform audience building strategy. Whereas Spotify builds audiences to deliver them music (and then monetise), Amazon is now building audiences in order to sell advertising. That may feel like a subtle nuance, but it is a critical strategic difference. In Spotify's and Netflix's content-first models, content strategy rules and business models can flex to support the content and the ecosystems needed to support that content. In an ad-first model, the focus is firmly on the revenue model, with content a means to an end rather than the end. (Of course, Amazon is also pursuing the content-first approach with its premium products.)

Amazon is becoming the company to watch

So, while Spotify investors were right to get twitchy at the Amazon rumours, it is Facebook investors who should be paying the closest attention. Amazon's intent is much bigger than competing with Spotify. It is to overtake Facebook as the second biggest global ad business. None of this means that Spotify won't find some of its ad supported business becoming collateral damage in Amazon's meta strategy – a meta strategy that is fast singling Amazon out as the boldest of the tech majors, while its peers either ape its approach (Apple) or consolidate around core competences (Google and Facebook). Amazon is fast becoming THE company to watch on global digital stage.

The discussion around this post has not yet got started, be the first to add an opinion.

Trending

Content proliferation is remaking entertainment categories and giving rise to experiential consumption

COEX-8.166

COEX-
8.166

amazon Hello Select your address All Hello, Sign in Account & Lists Returns & Orders 0

All Best Sellers Customer Service Prime New Releases Epic Daily Deals Books Pharmacy Registry Fashion Kindle Books

amazon music Amazon Music Unlimited Amazon Music HD Amazon Music Prime Free Streaming Music Buy Music

amazon music PRIME

2 MILLION HAND-CURATED SONGS INCLUDED WITH PRIME

Try Prime

Or get more with 75 million songs, try Amazon Music Unlimited >

THOUSANDS OF STATIONS AND TOP PLAYLISTS

LISTEN OFFLINE WITH UNLIMITED SKIPS

HANDS-FREE LISTENING WITH ALEXA

Back to top

COEX-
8.166

amazon

English | United States

Amazon Music
Stream millions of songs

Amazon Advertising
Find, attract, and engage customers

Amazon Drive
Cloud storage from Amazon

6pm
Score deals on fashion brands

AbeBooks
Books, art & collectibles

ACX
Audiobook Publishing Made Easy

Alexa
Actionable Analytics for the Web

Sell on Amazon
Start a Selling Account

Amazon Business
Everything For Your Business

Amazon Fresh
Groceries & More Right To Your Door

AmazonGlobal
Ship Orders Internationally

Home Services
Experienced Pros Happiness Guarantee

Amazon Ignite
Sell your original Digital Educational Resources

Amazon Web Services
Scalable Cloud Computing Services

Audible
Listen to Books & Original Audio Performances

Book Depository
Books With Free Delivery Worldwide

Box Office Mojo
Find Movie Box Office Data

ComiXology
Thousands of Digital Comics

DPReview
Digital Photography

East Dane
Designer Men's Fashion

Fabric
Sewing, Quilting & Knitting

Goodreads
Book reviews & recommendations

IMDb
Movies, TV & Celebrities

IMDbPro
Get Info Entertainment Professionals Need

Kindle Direct Publishing
Indie Digital & Print Publishing Made Easy

Amazon Photos
Unlimited Photo Storage Free With Prime

Prime Video Direct
Video Distribution Made Easy

Shopbop
Designer Fashion Brands

Amazon Warehouse
Great Deals on Quality Used Products

Whole Foods Market
America's Healthiest Grocery Store

Woot!
Deals and Shenanigans

Zappos
Shoes & Clothing

Ring
Smart Home Security Systems

eero WiFi
Stream 4K Video in Every Room

Blink
Smart Security for Every Home

Neighbors App
Real-Time Crime & Safety Alerts

Amazon Subscription Boxes
Top subscription boxes – right to your door

PillPack
Pharmacy Simplified

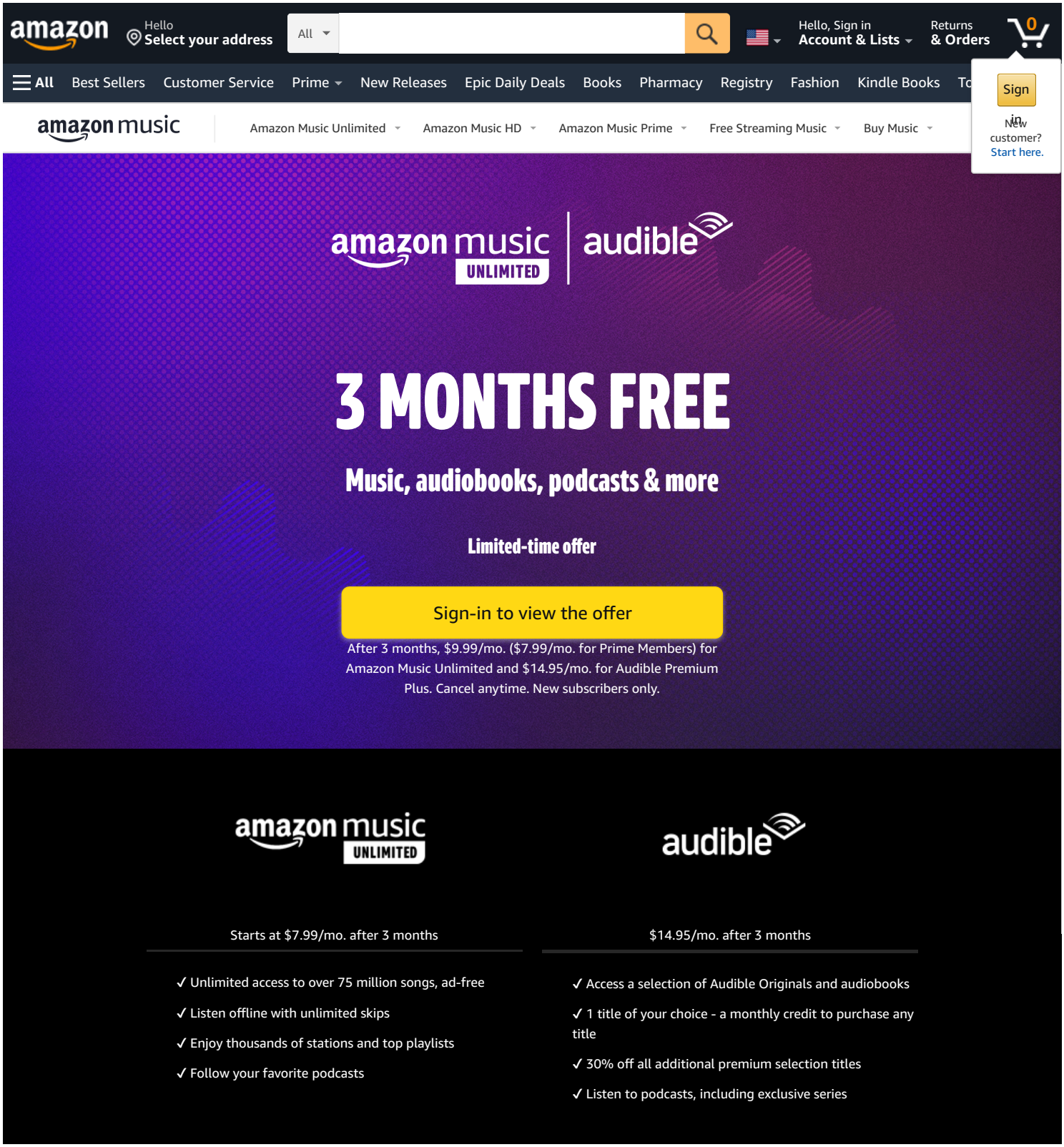
Amazon Renewed
Like-new products you can trust

Amazon Second Chance
Pass it on, trade it in, give it a second life

Conditions of Use Privacy Notice Interest-Based Ads © 1996-2021, Amazon.com, Inc. or its affiliates

COEX-8.167

COEX-
8.167



Offer Terms and Conditions:

Offer available until October 8, 2021 at 9:00 a.m. PT. Valid for US customers only. Offer available by invitation only to new subscribers of Amazon Music Unlimited and Audible. You will receive a 3-month Amazon Music Unlimited free trial and a 3-month Audible Premium Plus free trial. After your 3-month free trials, you will be charged the then current full price (currently $9.99 - or $7.99 for Prime Members - per month plus any taxes for your Amazon Music Unlimited subscription and $14.95 per month

plus any taxes for your Audible Premium Plus subscription) with your designated credit card or another available card on file. Your subscriptions continue until cancelled. Cancel anytime by visiting Your Amazon Music Settings and Your Audible Settings. Your subscriptions must be cancelled separately. Canceling one subscription will not automatically cancel the other. This offer cannot be combined with any other offer. Digital content and services may only be available to customers located in the U.S. and are subject to the terms and conditions of Amazon.com Services LLC and Audible, Inc. Offer limited to one per customer and account, is non-transferable, and may not be resold. Amazon and Audible reserve the right to modify or cancel the offer at any time. If you violate any of these terms, the offer will be invalid.

Back to top

Get to Know Us
Careers
Blog
About Amazon
Sustainability
Press Center
Investor Relations
Amazon Devices

Make Money with Us
Sell products on Amazon
Sell apps on Amazon
Become an Affiliate
Become a Delivery Driver
Start a package delivery business
Advertise Your Products
Self-Publish with Us
Host an Amazon Hub
› See More Make Money with Us

Amazon Payment Products
Amazon Rewards Visa Signature Cards
Amazon.com Store Card
Amazon Secured Card
Amazon Business Card
Amazon Business Line of Credit
Shop with Points
Credit Card Marketplace
Reload Your Balance
Amazon Currency Converter

Let Us Help You
Amazon and COVID-19
Your Account
Your Orders
Shipping Rates & Policies
Amazon Prime
Returns & Replacements
Manage Your Content and Devices
Amazon Assistant
Help

amazon
English
United States

Amazon Music
Stream millions of songs

Amazon Advertising
Find, attract, and engage customers

Amazon Drive
Cloud storage from Amazon

6pm
Score deals on fashion brands

AbeBooks
Books, art & collectibles

ACX
Audiobook Publishing Made Easy

Alexa
Actionable Analytics for the Web

Sell on Amazon
Start a Selling Account

Amazon Business
Everything For Your Business

Amazon Fresh
Groceries & More Right To Your Door

AmazonGlobal
Ship Orders Internationally

Home Services
Experienced Pros Happiness Guarantee

Amazon Ignite
Sell your original Digital Educational Resources

Amazon Web Services
Scalable Cloud Computing Services

Audible
Listen to Books & Original Audio Performances

Book Depository
Books With Free Delivery Worldwide

Box Office Mojo
Find Movie Box Office Data

ComiXology
Thousands of Digital Comics

DPReview
Digital Photography

East Dane
Designer Men's Fashion

Fabric
Sewing, Quilting & Knitting

Goodreads
Book reviews & recommendations

IMDb
Movies, TV & Celebrities

IMDbPro
Get Info Entertainment Professionals Need

Kindle Direct Publishing
Indie Digital & Print Publishing Made Easy

Amazon Photos
Unlimited Photo Storage Free With Prime

Prime Video Direct
Video Distribution Made Easy

Shopbop
Designer Fashion Brands

Amazon Warehouse
Great Deals on Quality Used Products

Whole Foods Market
America's Healthiest Grocery Store

Woot!
Deals and Shenanigans

Zappos
Shoes & Clothing

Ring
Smart Home Security Systems

eero WiFi
Stream 4K Video in Every Room

Blink
Smart Security for Every Home

Neighbors App
Real-Time Crime & Safety Alerts

Amazon Subscription Boxes
Top subscription boxes – right to your door

PillPack
Pharmacy Simplified

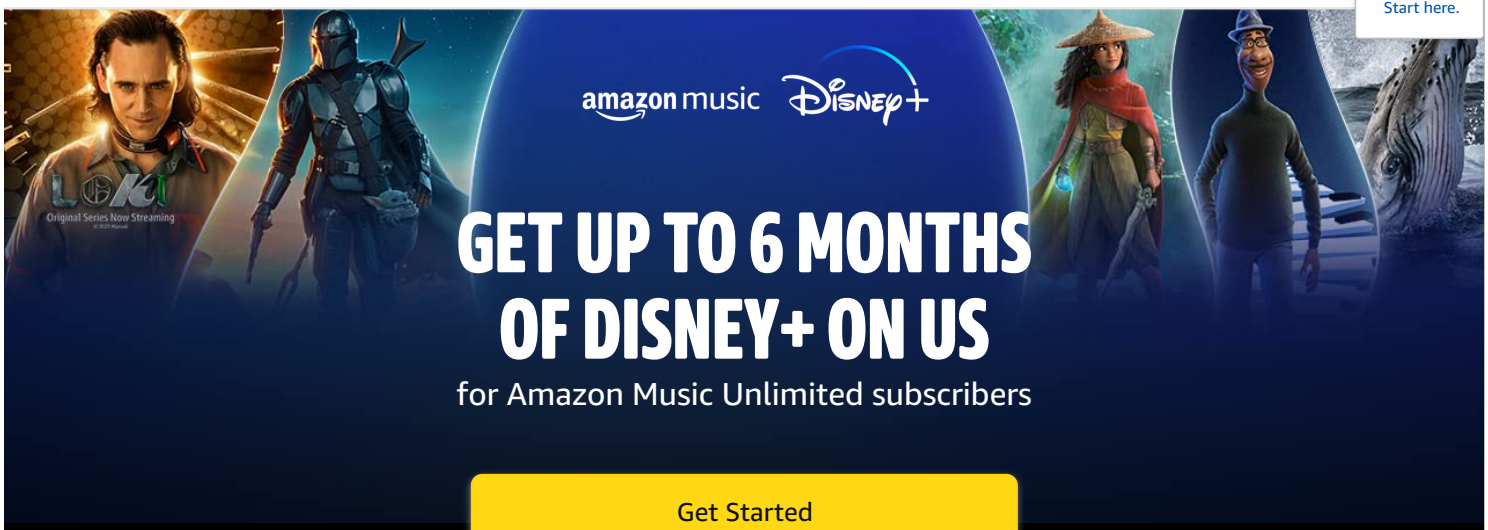
Amazon Renewed
Like-new products you can trust

Amazon Second Chance
Pass it on, trade it in, give it a second life

Conditions of Use Privacy Notice Interest-Based Ads © 1996-2021, Amazon.com, Inc. or its affiliates

COEX-8.168

amazon Hello Select your address All Hello, Sign in Account & Lists Returns & Orders 0
All Best Sellers Customer Service Prime New Releases Epic Daily Deals Books Pharmacy Registry Fashion Kindle Books
Sign in
New customer? Start here.
amazon music Amazon Music Unlimited Amazon Music HD Amazon Music Prime Free Streaming Music Buy Music



GET UP TO 6 MONTHS OF DISNEY+ ON US

for Amazon Music Unlimited subscribers

Get Started

amazon music UNLIMITED

Starts at $7.99/mo.

- ✓ Unlimited access to over 75 million songs, ad-free
- ✓ Listen offline with unlimited skips
- ✓ Enjoy thousands of stations and top playlists
- ✓ Follow your favorite podcasts

Disney+

$7.99/mo. after

- ✓ Disney, Pixar, Marvel, Star Wars, National Geographic, and more
- ✓ Virtual movie nights with GroupWatch
- ✓ Stream exclusive Disney+ Originals
- ✓ Watch now or download for later

Offer Terms and Conditions

This offer of 6 months of Disney+ on us for new Amazon Music Unlimited subscribers and 3 months of Disney+ on us for current and former Amazon Music Unlimited subscribers is a limited time offer available with eligible Amazon Music Unlimited plans. Current subscribers to Disney+ are not eligible. Must be 18 or older to subscribe. Use of Disney+ is subject to the Disney+ Subscriber Agreement and Privacy Policy. Your Disney+ promotional subscription will remain active for the duration of the offer unless your Amazon Music Unlimited subscription is cancelled during the promotional period. After the applicable promotional period, your Disney+ subscription will automatically renew at the then current monthly retail price for Disney+ until cancelled. Amazon Music Unlimited can be cancelled at any time by visiting Amazon Music settings. Disney+ can be cancelled at any time by going to https://www.disneyplus.com/account. Your Amazon Music Unlimited subscription AND Disney+ subscription must be cancelled separately and canceling one will not automatically cancel the other. This offer cannot be combined with any other offer. Digital content and services may only be available to customers located in the U.S. and are subject to the terms and conditions of Amazon.com Services LLC. Offer limited to one per customer and account in the U.S. & Canada only. Amazon reserves the right to modify or cancel the offer at any time. Offer is nontransferable and may not be resold. If you violate any of these terms, the offer will be invalid.

Questions about this promotion? Learn more

Back to top

Get to Know Us

- Careers
- Blog
- About Amazon
- Sustainability
- Press Center
- Investor Relations
- Amazon Devices

Make Money with Us

- Sell products on Amazon
- Sell apps on Amazon
- Become an Affiliate
- Become a Delivery Driver
- Start a package delivery business
- Advertise Your Products
- Self-Publish with Us
- Host an Amazon Hub
- › See More Make Money with Us

Amazon Payment Products

- Amazon Rewards Visa Signature Cards
- Amazon.com Store Card
- Amazon Secured Card
- Amazon Business Card
- Amazon Business Line of Credit
- Shop with Points
- Credit Card Marketplace
- Reload Your Balance
- Amazon Currency Converter

Let Us Help You

- Amazon and COVID-19
- Your Account
- Your Orders
- Shipping Rates & Policies
- Amazon Prime
- Returns & Replacements
- Manage Your Content and Devices
- Amazon Assistant
- Help

amazon

English | United States

Amazon Music
Stream millions of songs

Amazon Advertising
Find, attract, and engage customers

Amazon Drive
Cloud storage from Amazon

6pm
Score deals on fashion brands

AbeBooks
Books, art & collectibles

ACX
Audiobook Publishing Made Easy

Alexa
Actionable Analytics for the Web

Sell on Amazon
Start a Selling Account

Amazon Business
Everything For Your Business

Amazon Fresh
Groceries & More Right To Your Door

AmazonGlobal
Ship Orders Internationally

Home Services
Experienced Pros Happiness Guarantee

Amazon Ignite
Sell your original Digital Educational Resources

Amazon Web Services
Scalable Cloud Computing Services

Audible
Listen to Books & Original Audio Performances

Book Depository
Books With Free Delivery Worldwide

Box Office Mojo
Find Movie Box Office Data

ComiXology
Thousands of Digital Comics

DPReview
Digital Photography

East Dane
Designer Men's Fashion

Fabric
Sewing, Quilting & Knitting

Goodreads
Book reviews & recommendations

IMDb
Movies, TV & Celebrities

IMDbPro
Get Info Entertainment Professionals Need

Kindle Direct Publishing
Indie Digital & Print Publishing Made Easy

Amazon Photos
Unlimited Photo Storage Free With Prime

Prime Video Direct
Video Distribution Made Easy

Shopbop
Designer Fashion Brands

Amazon Warehouse
Great Deals on Quality Used Products

Whole Foods Market
America's Healthiest Grocery Store

Woot!
Deals and Shenanigans

Zappos
Shoes & Clothing

Ring
Smart Home Security Systems

eero WiFi
Stream 4K Video in Every Room

Blink
Smart Security for Every Home

Neighbors App
Real-Time Crime & Safety Alerts

Amazon Subscription Boxes
Top subscription boxes – right to your door

PillPack
Pharmacy Simplified

Amazon Renewed
Like-new products you can trust

Amazon Second Chance
Pass it on, trade it in, give it a second life

Conditions of Use Privacy Notice Interest-Based Ads © 1996-2021, Amazon.com, Inc. or its affiliates

COEX-8.169

Spotify Is Giving Premium Customers Free Hulu

mentalfloss.com/article/576723/spotify-premium-customers-get-free-hulu

March 12, 2019

arrow

entertainment

BY Michele Debczak
March 12, 2019

iStock.com/stockcam

It's hard to keep track of all the streaming services available today, but paying for two of them just got a lot easier. As The Verge reports, a free Hulu plan now comes with a Spotify Premium subscription.

Spotify Premium costs $10 a month, and it includes unlimited ad-free access to the 35 million-plus songs in the service's library, as well as the ability to save music and play it offline. Beginning today, March 12, you can bundle Spotify Premium with Hulu's basic ad-supported plan for $10 a month, which means if you were already paying for Spotify, you're basically getting Hulu for free. Without the deal, Hulu's cheapest plan normally costs $6 a month to stream unlimited shows and movies with ad breaks.

If you're already subscribed to Spotify Premium, you can add Hulu to the same bill from the Your Services page on Spotify. New members can sign up for both plans at once by visiting Spotify.com/hulu and entering their payment information. The promotion is not open to users on a Spotify Premium family account.

The special offer is only available until June 10, 2019, or "while supplies last," according to Spotify. After signing up, you can take your shiny new subscription for a spin with a binge-watching session. Here are some of the best shows and movies to stream.

[h/t The Verge]

Subscribe to our Newsletter!

SIGN UP NOW

COEX-8.170

COEX-
8.170

Spotify

Premium Support Download | Sign up Log in

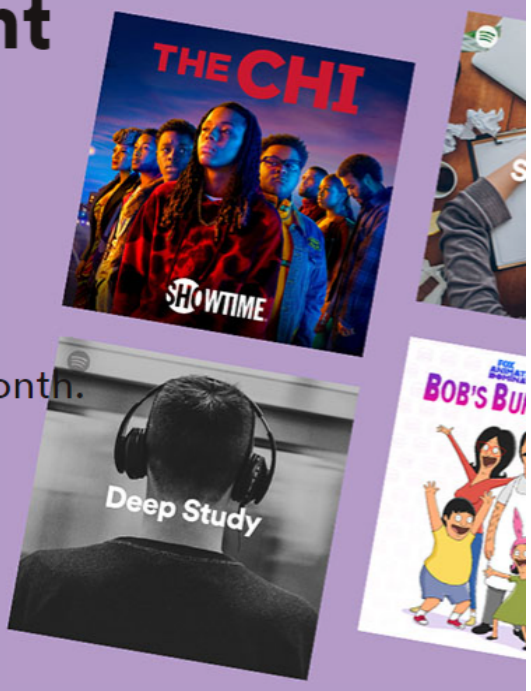
Spotify Premium Student with Hulu and SHOWTIME

After your trial, enjoy Premium, Hulu (ad-supported), and SHOWTIME for just $4.99/month. Cancel anytime.

✓ Spotify Premium ✓ Hulu (ad-supported) plan ✓ SHOWTIME

GET 1 MONTH FREE

GOT HULU OR SHOWTIME?



$4.99/month after trial. Offer currently includes access to Hulu (ad-supported) plan and SHOWTIME Streaming Service, subject to eligibility. Open only to higher education students who haven't already tried Premium. Terms apply.

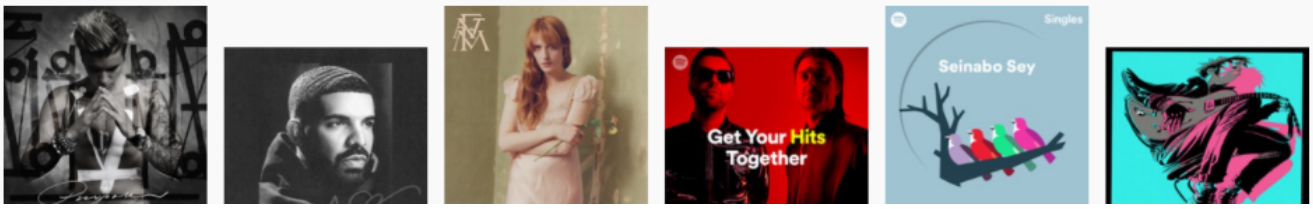
Music & TV. Better together.

3 services. 1 bill. Endless entertainment. Here's what you get:

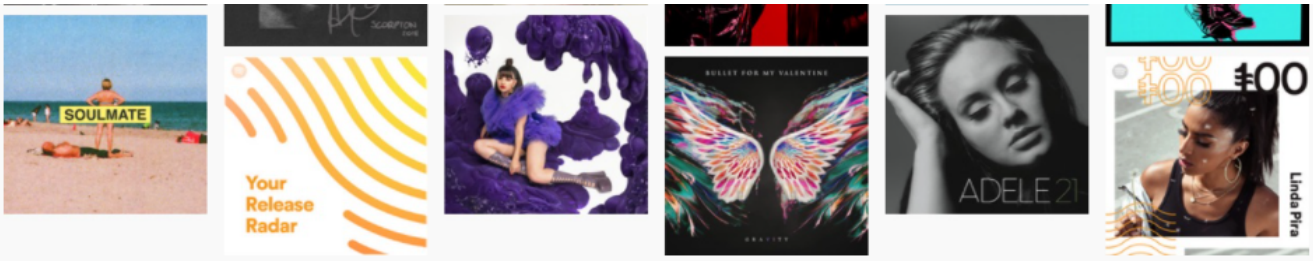
Spotify

Spotify Premium Student

Listen to millions of songs, offline and without ad interruptions. Make and share your own playlists, or lean back and listen to Spotify's curated playlists and original podcasts. Find the music you love and discover your new favorites.



COEX-
8.170



hulu

Thousands of shows and movies

Stream episodes of The Handmaid's Tale, Wu-Tang: An American Saga, Solar Opposites, Palm Springs, Family Guy and more on your favorite devices.

SHOWTIME

Hit Originals & More – All Ad-Free

Binge original series like Dexter, Desus & Mero and The L Word: Generation Q along with must see movies, docs, sports and more on any device, anytime.

Spotify

Your Spotify Premium
Normally $9.99/month

hulu

SHOWTIME

SPOTIFY PREMIUM STUDENT

Get all three for just $4.99/month

You save up to $21.98/month. Cancel anytime.

Hulu (ad-supported) plan. Normally $5.99/month*

SHOWTIME Normally $10.99/month

GET STARTED

Offer currently includes access to Hulu (ad-supported) plan and SHOWTIME Streaming Service, subject to eligibility. Open only to students at Title IV accredited institutions in the US. Terms apply.

Questions?

We've got answers.

Am I eligible for this plan?

How do you know I'm a student?

What happens to my account when I graduate or leave school?

Will Hulu and SHOWTIME show up in my Spotify app?

How do I log in to Hulu or SHOWTIME?

I'm new to Premium but I already have a Hulu subscription - can I use my Hulu account?

I'm new to Premium but I already have a SHOWTIME subscription - can I use my SHOWTIME account?

What will I be charged, and when?

ALREADY HAVE HULU OR SHOWTIME?

You can use your existing accounts with this offer if:

- ✓ You have the Hulu (ad-supported) plan (reg. $5.99).
- ✓ You don't have any Hulu Add-ons (e.g. SHOWTIME, HBO).
- ✓ You currently pay Hulu directly and not through a third party (e.g. Roku, Amazon).

Heads up: You'll need to switch your Hulu billing to Spotify.

To use your SHOWTIME account with this offer, just cancel your existing SHOWTIME billing and, after the billing date has passed, activate SHOWTIME from your Spotify Services page.

Spotify

COMPANY
About
Jobs
For the Record

COMMUNITIES
For Artists
Developers
Advertising
Investors
Vendors

USEFUL LINKS
Support
Web Player
Free Mobile App

Legal Privacy Center Privacy Policy Cookies About Ads Additional CA Privacy Disclosures

USA

© 2021 Spotify AB

COEX-8.171

AT&T

Get Spotify Premium through your AT&T subscription.

Spotify Premium at no additional cost with AT&T UNLIMITED &MORE™ PREMIUM

Subscribe to Spotify Premium through AT&T WatchTV

6-month free trial of Spotify Premium with AT&T Connected Car and AT&T THANKS

Need Help?

Contact AT&T if you need help with:

- Managing or canceling your AT&T service or Spotify subscription (excluding 6-month trial).
- Your payment (excluding 6-month trial).

Spotify can help with:

- Managing or **canceling your Spotify subscription** (6-month trial only).
- **Your payment** (6-month trial only).
- Your music or the Spotify app.

FAQ

What if I already pay for Spotify Premium?

It says I can't pay for Premium through AT&T. Why?

Why does it say I'm not eligible for the 6-month free trial?

Can I add Premium Family or Premium for Students to my AT&T subscription?

Last updated: 28 November, 2019

Was this article helpful?

Yes No

Developers

Advertising

Investors

Vendors

USEFUL LINKS

Support

Web Player

Free Mobile App

Contact Spotify

USA

Legal Privacy Center Privacy Policy Cookies About Ads Additional CA Privacy Disclosures

© 2021 Spotify AB

COEX-8.172

Even better together.

Apple One bundles up to six amazing Apple services into one easy subscription. Get a plan that's right for you — or for your whole family. And all members have private access to each service, across all their devices. With Apple One, it's never been easier to get more. For less.

Try Apple One free

Apple Music

Over 75 million songs ready to stream or download, ad-free.

Apple TV+

Critically acclaimed Apple Original shows and movies.

Apple Arcade

Over 180 incredibly fun games. No ads. No in-app purchases.

iCloud+

All the storage you need. Plus powerful features to protect your privacy.

Apple News+

Leading newspapers and hundreds of magazines at your fingertips.

Apple Fitness+

A fitness experience for everyone, powered by Apple Watch.

The biggest bang, binge, and blast for your buck.

Apple One is the ultimate collection of Apple services for one low monthly price. It's simple to sign up for and easy to manage. And with the Family plan or Premier plan, you can invite up to five other people to join.

Try Apple One free

Individual

$14.95/mo.

Save $6/mo.**

Family

$19.95/mo.

Save $8/mo.** Share with up to five other people.

Premier

$29.95/mo.

Save $25/mo.** Share with up to five other people.

with 50GB with 200GB with 2TB

Discover a world of world-class services.

With millions of songs, over 180 games, Apple Original shows and movies, and more, there's something for everyone in every Apple One plan.

Watch *The Morning Show* and other Apple Originals with Apple TV+.

Super simple. One free trial, one monthly invoice, and

one place to manage your account.* You can cancel at any time, no strings attached.

Play LEGO® Brawls and more than 180 other amazing games on Apple Arcade.

Listen to the latest by Victoria Monét and millions more on Apple Music.

Great for sharing. All users on the Family and Premier plans can sign in with their own Apple ID. So everyone has private access to each service and gets personalized recommendations.

Keep all your photos, files, and more safe and up to date with iCloud+.

Read *The Wall Street Journal* and hundreds of top magazines and newspapers on Apple News+.

One month free. Any services you haven't already tried are free for the first month.*

Work out with Apple Fitness+. See personal metrics from your Apple Watch synced to your iPhone, iPad, or Apple TV.

COEX-
8.172

Get started.

Try Apple One free

COEX-
8.172

In case you missed anything.

What is Apple One?

Apple One is an all-in-one subscription that bundles up to six Apple services. It's the easiest way to get your favorite Apple services at one incredible price — and get even more enjoyment out of your Apple devices. Apple One includes the best services to keep you entertained and informed, as well as iCloud storage for your photos, files, and more. Services include Apple Music, Apple TV+, Apple Arcade, iCloud+, Apple News+, and Apple Fitness+.

Where do I find it, and how do I sign up?

You have a few options. If you're using an iPhone with iOS 14, an iPad with iPadOS 14, or a Mac with macOS Big Sur, tap or click here. You can also search for Apple One on your device or go to Settings > Account > Manage Subscriptions. And if it will save you money, we'll automatically recommend an Apple One plan when you sign up for individual Apple services, based on the services you already have.

What does it cost?

The Individual plan is $14.95 per month, the Family plan is $19.95 per month, and the Premier plan is $29.95 per month.

Which device and operating system do I need?

Apple One services work across your Apple devices, including iPhone and iPod touch with iOS 14 or later, iPad with iPadOS 14 or later, Apple TV with tvOS 14 or later, and Mac with macOS Big Sur 11.1 or later. If you subscribe through another device, you can still enjoy Apple One on any version of macOS earlier than macOS Big Sur. Apple Fitness+, included with the Apple One Premier plan, requires Apple Watch Series 3 or later.

How do I access my Apple One services?

Once you subscribe, you can enjoy your Apple One services on any platforms where the services are available, including the web (Apple Music and Apple TV+), select smart TVs (Apple Music and Apple TV+), Apple Watch (Apple Fitness+), Android (Apple Music), or other third-party streaming devices (Apple Music and Apple TV+).

Do I get a free trial? And what does it include?

Any services you haven't already subscribed to are free for the first month of your Apple One subscription.* After the free trial, the plan automatically renews as a monthly subscription. There's no commitment, and you can cancel at any time.

What if I need more iCloud storage?

You can purchase additional iCloud storage separately to supplement what's included with your Apple One plan. Learn more ›

Can I share with my family?

If you have the Apple One Family or Premier plan, you can use Family Sharing to share all included Apple services with up to five other family members. And Apple TV+ and Apple Arcade always include Family Sharing, even in the Apple One Individual plan. Learn more about Family Sharing ›

Apple Music
Learn more ›

Apple TV+
Learn more ›

Apple Arcade
Learn more ›

iCloud+
Learn more ›

Apple News+
Learn more ›

Apple Fitness+
Learn more ›

* The Apple One free trial includes only services that you are not currently using through a free trial or a subscription. Plan automatically renews after trial until cancelled. Restrictions and other terms apply.

** Savings based on standard monthly pricing for services purchased separately.

Apple Fitness+ requires an Apple Watch Series 3 or later. Available when paired with iPhone 6s or later with iOS 14.3.

Apple Fitness+ requires iOS 14.3 or later, iPadOS 14.3 or later, watchOS 7.2 or later, and tvOS 14.3 or later.

Copyright © 2021 Apple Inc. All rights reserved.

COEX-8.173

COEX-
8.173

Music Streamers Tap Live Events to Stand Out

The Wall Street Journal

July 10, 2019 Wednesday

Copyright 2019 Factiva ®, from Dow Jones
All Rights Reserved

FACTIVA®

Copyright 2019 Dow Jones & Company, Inc. All Rights Reserved.

THE WALL STREET JOURNAL.
U.S. EDITION

Section: TECHNOLOGY; Pg. B4

Length: 581 words

Byline: By Anne Steele

Body

When Taylor Swift takes the stage Wednesday night in New York City, only around 2,000 fans will be on hand to see the concert in person, but millions more are expected to watch live online via Amazon.com Inc.'s Prime Day promotion.

Music-streaming services including Apple Music and Spotify are counting on live events to set themselves apart from one another, further connect fans with artists and keep their subscription payments flowing. They have been experimenting with concerts based on popular playlists, album-listening parties and Q&A sessions with hard-core fans, identified via their streaming habits.

For artists, these events represent a way to make their music stand out from the tens of millions of songs available on streaming services, and often to connect with fans more directly than they can at a giant concert venue.

"It's an opportunity to raise awareness for Amazon Music and puts us in the spotlight with terrific artists," said Steve Boom, Amazon's vice president for music.

Aside from the Taylor Swift concert, which will also feature SZA, Dua Lipa and Becky G, Amazon recently streamed live performances from Maren Morris and the Jonas Brothers and invited 100 fans to meet Thomas Rhett and listen to his new album; a Q&A was live streamed on the service.

Spotify Technology SA has hosted listening parties with artists ahead of album releases, inviting fans that the service has identified as the most avid listeners of a given act. It also has drawn upon some of its most popular playlists as the basis for live shows.

Apple Music has invited fans to exclusive performances from artists including Tyler the Creator and Shawn Mendes, which were also streamed online. This summer, it has rolled out a series of shows across the world, which feature up-and-coming acts on the platform.

Live events hosted by streaming service events typically differ in a few key ways from the promotional concerts that radio stations have been staging for decades. Those are typically large affairs at arenas, with fans buying tickets to see lineups that can include upward of a dozen major acts. Events hosted by Apple Music, Spotify and Amazon Music typically feature no more than a few artists, often in a more intimate venue, and are free for the audience, which consists of fans invited by the service. Apple Inc. itself for many years hosted a monthlong event in London that it called the iTunes Festival, before briefly changing its name to the Apple Music Festival. The event, which featured dozens of major artists, was canceled after its 10th year, in 2016. As with radio-station shows, artists typically aren't paid to appear at streaming shows. Rather, they are often given free marketing and promotion, such as prominent placement of new music on a streaming service, billboards and other advertisements and spots on playlists, which can drum up millions of listens for a given song.

"If you do a Spotify session or an Apple Music event you know that platform is going to support your project beyond that," said one major music company executive. "They're not going to walk away the next day. They want to be seen as a partner of the artist."

With all the services offering essentially the same library of songs, an exclusive performance is meant to signal to fans why they should subscribe to one in particular.

"We're not just a square on their phone," said Marian Dicus, Spotify's global head of artist and label services.

License this article from Dow Jones Reprint Service

Notes

PUBLISHER: Dow Jones & Company, Inc.

Load-Date: July 10, 2019

COEX-8.174

LOSS-MAKING SPOTIFY WILL CONTINUE TO PUT GROWTH AHEAD OF PROFIT FOR 'NEXT FEW YEARS'

877
SHARES

BY TIM INGHAM
(HTTPS://WWW.MUSICBUSINESSWORLDWIDE.COM/REGIONS/EUROPE/SWEDEN/) (HTTPS://WWW.MUSICBUSINESSWORLDWIDE.COM/AUTHOR/TIM/

(HTTPS://WWW.MUSICBUSINESSWORLDWIDE.COM/REGIONS/NORTH-AMERICA/USA/) MAY 6, 2020

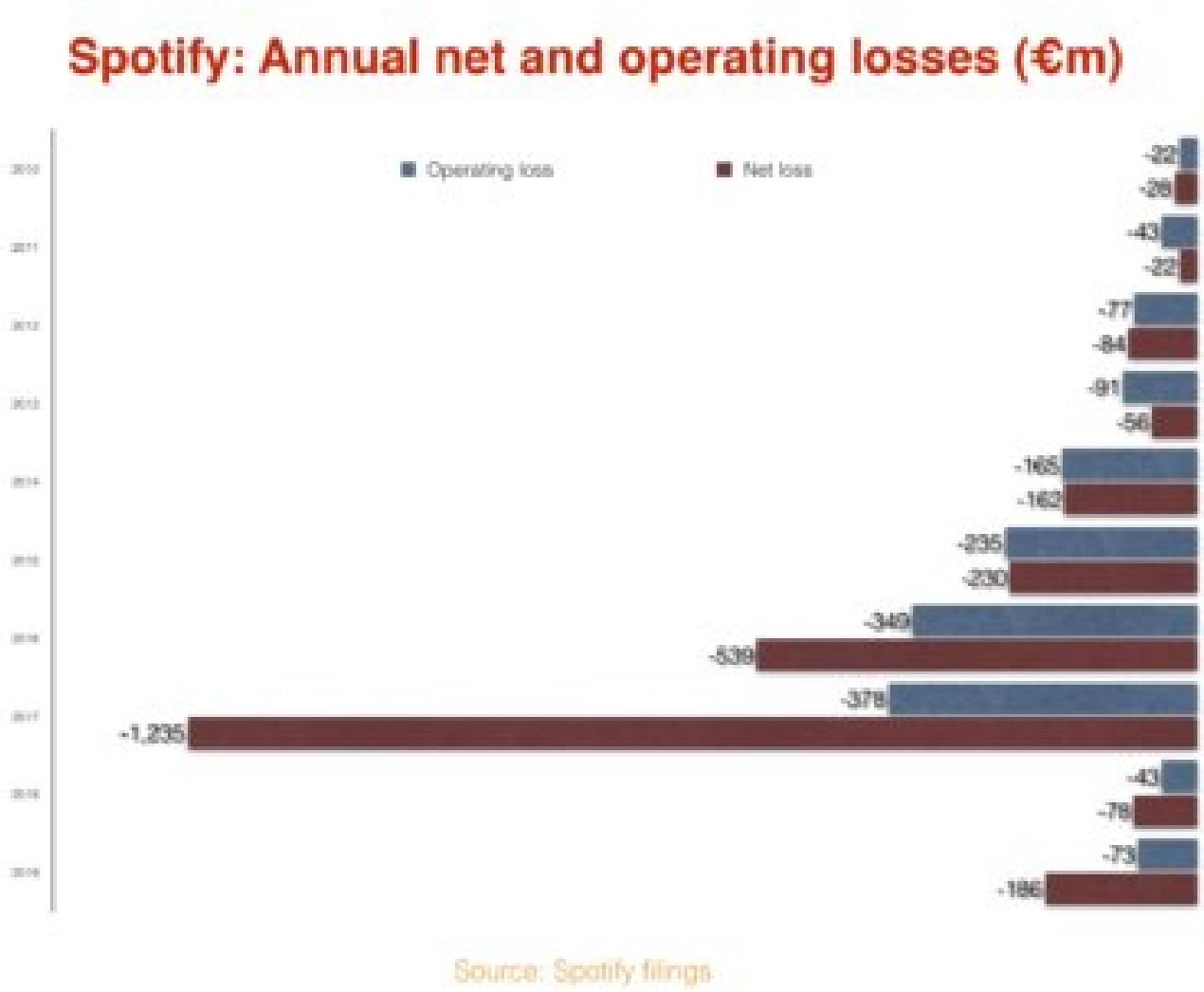
Since it launched 12 years ago, Spotify (https://www.musicbusinessworldwide.com/companies/spotify/) has never posted an annual net profit.

In fact, the company's cumulative annual net losses in the past decade add up to €2.62 billion – or around $2.8bn at today's exchange rate.

In more recent times, partly thanks to lower-margin deals with record labels initially signed in 2017, Spotify has gotten closer to profitability.

In FY 2018, for example, its annual operating loss stood at €43m, nearly a ninth of the size of the equivalent figure (€378m) from the prior year.

And in FY 2019, despite a €73m annual operating loss, SPOT actually posted a profitable quarter in Q3 (+€54m).



Despite this recent pattern of narrowing losses, Spotify co-founder and CEO, Daniel Ek (https://www.musicbusinessworldwide.com/people/daniel-ek/), has told his company's investors not to expect his firm to put the brakes on its spending for some time yet.

That's because, across podcasts and music, Ek believes that Spotify can lure potentially billions of listeners away from traditional broadcast radio and towards its on-demand platform in the years ahead.

To help Spotify do so, the company has spent close to $600m on podcast-related acquisitions in the past 18 months, including its buys of Anchor FM ($154m), Gimlet Media ($195m) and Parcast ($55m) last year, (https://www.musicbusinessworldwide.com/spotify-has-acquired-three-podcast-companies-this-year-total-cost-404m/) and Bill Simmons' The Ringer (up to $196m (https://www.axios.com/spotify-pay-196-million-cash-the-ringer-2179cc53-64e0-43ed-a654-f1942fa5815d.html)) in Q1 2020.

Speaking to CNBC's Squawk On The Street (https://twitter.com/SquawkStreet/status/1255610762074210305) last Wednesday, Ek was asked if Spotify may soon slow down its spending in order to return more profitable quarters for investors.

He replied: "The trend that we're seeing is linear radio moving to on-demand; we're talking about something [in radio] that has billions of consumers around the world that are now moving their behaviors online. Something like the COVID [lockdown] will likely accelerate that trend.

"We're in the growth stage, trying to capture that growth. Eventually we will get to more of a point of maturity where we'll focus more on profit over growth, but for the next few years it's going to be predominantly growth for us."

> **"EVENTUALLY WE WILL GET TO MORE OF A POINT OF MATURITY WHERE WE'LL FOCUS MORE ON PROFIT OVER GROWTH, BUT FOR THE NEXT FEW YEARS IT'S GOING TO BE PREDOMINANTLY GROWTH FOR US."**
>
> **DANIEL EK, SPOTIFY**

Ek was speaking after the announcement of Spotify's Q1 2020 results, in which the company posted €1.85bn in quarterly revenue (https://www.musicbusinessworldwide.com/despite-covid-19-spotifys-premium-subscriber-base-grew-by-6m-to-130m-in-q1-2020/), up 22% YoY, alongside a €47m operating loss.

In Spotify's annual report for 2019, released earlier this year, the company revealed that, as of December 31 2019, it had paid music industry rightsholders more than €15bn (https://s22.q4cdn.com/540910603/files/doc_financials/2019/ar/Spotify-2020-AGM-Annual-Report-on-Form-20-F.pdf).

That €15bn figure was €5bn up on the €10bn lifetime payout figure Spotify confirmed for December 31, 2018 – meaning that, across last year alone, Spotify paid labels, publishers, songwriters and artists €5bn ($5.6bn), or around $468m per month.

COEX-8.174

Speaking in the CNBC interview, Ek further suggested that Spotify's freemium model may help it to weather the COVID-19 lockdown better than its competitors.

"We have a freemium model, you start out being free on our platform and eventually people move into being paid users – more than 60% of them," he said.

"This is a great thing in an uncertain economic environment like this one, because if you're feeling economic pain, you can easily go back down to the free service, then back up to the Premium service when you have the means to do so. We think that's going to be a very strong competitive driver in an uncertain environment."

NEWS (/CATEGORY/NEWS/) SWEDEN (HTTPS://WWW.MUSICBUSINESSWORLDWIDE.COM/REGIONS/EUROPE/SWEDEN//)

UNITED STATES (HTTPS://WWW.MUSICBUSINESSWORLDWIDE.COM/REGIONS/NORTH-AMERICA/USA//) DANIEL EK (/TAG/DANIEL-EK/)

SPOTIFY (/TAG/SPOTIFY/)

RELATED POSTS

(https://www.musicbusinessworldwide.com/3-things-we-learned-from-daniel-ek-on-spotifys-q2-investor-call/)

3 THI WE LEA FRO DAI EK ON SPO Q2 INV CAI (HT THI WE LEA FRO DAI EK- ON- SPO Q2- INV CAI

(https://www.musicbusinessworldwide.com/jobs/spotify-associate-director-business-affairs-studio-content-live-audio-us-2/)

(https://www.musicbusinessworldwide.com/jobs/spotify-sr-manager-music-programming-us/)

SPOTIFY – SR. MANAGER MUSIC PROGRAMMING (US) (HTTPS://WWW.MUSR-MANAGER-MUSIC-PROGRAMMING-US/)

(https://www.musicbusinessworldwide.com/eligible-tiktok-users-can-now-get-spotify-premium-for-free-in-the-uk-france-germany-italy-spain-poland-and-turkey/)

LATEST MUSIC BUSINESS JOBS

(/jobs)

COEX-
8.174

(https://www.musicbusinessworldwide.com/jobs/the-music-market-arts-and-media-production-account-manager-us/)

(https://www.musicbusinessworldwide.com/jobs/the-state51-conspiracy-business-operations-support-uk/)

LONDON (/JOBS/L | THE STATE5 CONSPI (/JOBS/ STATE5 CONSPI THE STATE5 CONSPI – BUSINES OPERAT SUPPOR (UK) (HTTPS: STATE5 CONSPI BUSINES OPERAT SUPPOR UK/)

(https://www.musicbusinessworldwide.com/jobs/universal-music-group-change-analyst-uk-2/)

LONDON (/JOBS/LOCATION/LO | UNIVERSAL MUSIC GROUP (/JOBS/COMPANY/UN MUSIC-GROUP/) UNIVERSAL MUSIC GROUP – CHANGE ANALYST (UK)

COEX-
8.174

(HTTPS://WWW.MUSI
MUSIC-GROUP-
CHANGE-ANALYST-
UK-2/)

(https://www.musicbusinessworldwide.com/jobs/universal-music-group-digital-rights-administrator-uk-2/)

LONDON
(/JOBS/L

UNIVERS
MUSIC
GROUP
(/JOBS/C
MUSIC-
GROUP/)
UNIVERS
MUSIC
GROUP –
DIGITAL
RIGHTS
ADMINIS
(UK)
(HTTPS:/
MUSIC-
GROUP-
DIGITAL-
RIGHTS-
ADMINIS
UK-2/)

(https://www.musicbusinessworldwide.com/jobs/universal-music-group-junior-advertising-strategy-manager-uk/)

L
(/

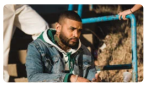
U
M
G
(/
M
G
U
M
G
–
J
A
S
M
(I
(I
M
G
J
A
S
M
U

The best of MBW, plus the most important music biz stories on the web. Delivered for FREE, direct to your inbox each day.

ENTER YOUR EMAIL ADDRESS...

SIGN UP

POPULAR ARTICLES



(https://www.musicbusinessworldwide.com/sony-music-backed-startup-tully-founded-by-joyner-lucas-and-manager-dhruv-joshi-partners-with-symphonic-distribution/)

(https://www.musicbusinessworldwide.com/tiktok-is-evolving-into-a-very-different-kind-of-music-streaming-giant/)

COEX-
8.174

(https://www.musicbusinessworldwide.com/sony-music-launches-artist-assistance-program-to-promote-wellness-for-its-signed-talent2/)

(https://www.musicbusinessworldwide.com/lena-franklin-appointed-vice-president-marketing-at-def-jam-recordings/)

(https://www.musicbusinessworldwide.com/round-hills-uk-fund-has-spent-342m-on-acquisitions-and-is-buying-catalogs-at-a-multiple-of-16-2x/)

LATEST MBW PODCASTS

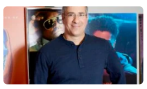
(/podcast)

(https://www.musicbusinessworldwide.com/podcast/is-timbaland-about-to-transform-the-music-production-business-again/)

(https://www.musicbusinessworldwide.com/podcast/troy-carter-the-music-industry-has-to-change-the-business-model-its-as-simple-as-that/)

COEX-
8.174

(https://www.musicbusinessworldwide.com/podcast/spice-girls-kylie-and-a-near-death-experience-biff-stannard-talks-songwriting-and-battling-demons/)


(https://www.musicbusinessworldwide.com/podcast/larry-mestel-i-was-shocked-the-majors-even-let-me-in-the-business-back-in-2006/)

(https://www.musicbusinessworldwide.com/podcast/poo-bear-i-turn-my-hurt-into-gas-into-fuel-to-keep-going-and-working-harder/)

PRIVACY POLICY
(HTTPS://WWW.MUSICBUSINESSWORLDWIDE.COM/PRIVACY-POLICY/)

COOKIE POLICY
(HTTPS://WWW.MUSICBUSINESSWORLDWIDE.COM/COOKIE-POLICY/)

CONTACT US

CONTACT US
(HTTPS://WWW.MUSICBUSINESSWORLDWIDE.COM/CONTACT-US/)

ADVERTISE WITH US
(HTTPS://WWW.MUSICBUSINESSWORLDWIDE.COM/ADVERTISE-WITH-US/)

SEND US NEWS (MAILTO:EMAIL@MUSICBIZWORLDWIDE.COM?SUBJECT=NEWS%20SUBMISSION)

GENERAL ENQUIRIES
(MAILTO:ENQUIRIES@MUSICBIZWORLDWIDE.COM?SUBJECT=GENERAL%20ENQUIRY)

REPORT A PROBLEM
(MAILTO:PROBLEM@MUSICBIZWORLDWIDE.COM?SUBJECT=REPORT%20A%20PROBLEM)

FOLLOW US

FACEBOOK
(HTTPS://WWW.FACEBOOK.COM/MUSICBUSINESSWORLDWIDE)

LINKEDIN
(HTTPS://WWW.LINKEDIN.COM/COMPANY/MUSICBIZWORLDWIDE/)

TWITTER (HTTPS://WWW.TWITTER.COM/@MUSICBIZWORLD)

RSS (/RSS)

© 2021 MUSIC BUSINESS WORLDWIDE
27 OLD GLOUCESTER STREET, LONDON, WC1N 3AX

WEBSITE BY 44 BYTES (HTTPS://WWW.44BYTES.NET)

COEX-8.175

COEX-
8.175

amazon Hello Select your address All Hello, Sign in Account & Lists Returns & Orders 0

All Best Sellers Customer Service Prime New Releases Epic Daily Deals Books Pharmacy Registry Fashion Kindle Books

Prime Delivery Exclusive Deals Prime Insider Get Help

Sign in
New customer? Start here.

50% Off

prime

Prime is just ~~$12.99~~ $5.99/month* for qualifying government assistance recipients

GET STARTED

Are you a student?
Don't qualify? See other plans.

Best of Prime

COEX-
8.175

FREE delivery

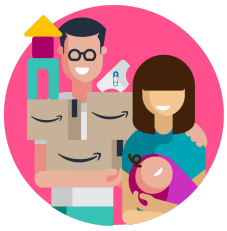
Free and convenient ways to get millions of items.

Award-Winning Movies & TV Shows

Watch what you love with Award-Winning Amazon Originals, movies and TV shows, included in your membership.

Deals just for Prime members

Get exclusive access to discount deals and member savings.



Unlimited photo storage

Prime members get free unlimited photo storage and 5 GB for video with Amazon Photos.

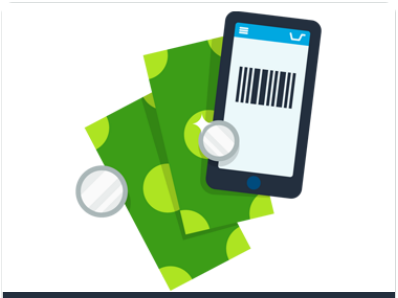
Shopping made easier

Pay with SNAP EBT on Amazon

Amazon now accepts SNAP EBT for eligible groceries, with free shipping available.

Subscribe & Save

Save up to 15% on thousands of everyday essentials, and up to 20% on diapers.

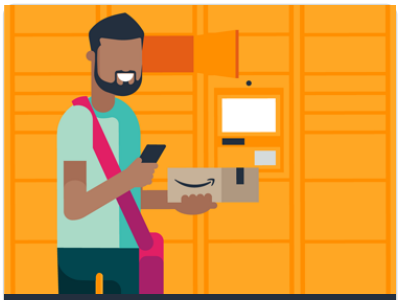


Pay with cash or gift card

Add cash to your Amazon Balance with Amazon Cash or pay using a gift card.

Shop in Spanish

Select the language you prefer for browsing, shopping, and communications.



Secure delivery & returns

Pick up and return packages at a time and place that's convenient for you using Amazon Hub Lockers.

Save with coupons

Get access to exclusive savings without the hassle of clipping, with discounts automatically applied at checkout.

EBT cards are used for Government assistance programs, including SNAP, WIC and TANF. Learn more about qualifying programs.

*You will need to qualify every 12 months.

Qualifying government assistance recipients get a discount on Amazon Prime

As an Amazon Prime member, you receive Free Two-Day Delivery on over 100 million items, exclusive shopping deals, and discounts on diapers and baby food. With Prime, you get access to thousands of movies, TV shows, and music to stream online or download for offline, plus unlimited access to over a thousand top Kindle books, and more! Customers who verify their valid eligibility receive access to all Prime benefits, discounted to just $5.99/month. Join now at amazon.com/qualify.

Ready for the Best of Shopping and Entertainment?

JOIN PRIME

Back to top

Get to Know Us
Careers
Blog
About Amazon
Sustainability
Press Center
Investor Relations
Amazon Devices

Make Money with Us
Sell products on Amazon
Sell apps on Amazon
Become an Affiliate
Become a Delivery Driver
Start a package delivery business
Advertise Your Products

Amazon Payment Products
Amazon Rewards Visa Signature Cards
Amazon.com Store Card
Amazon Secured Card
Amazon Business Card
Amazon Business Line of Credit
Shop with Points
Credit Card Marketplace

Let Us Help You
Amazon and COVID-19
Your Account
Your Orders
Shipping Rates & Policies
Amazon Prime
Returns & Replacements

Self-Publish with Us
Host an Amazon Hub
› See More Make Money with Us

Reload Your Balance
Amazon Currency Converter

Manage Your Content and Devices
Amazon Assistant
Help

amazon
English
United States

Amazon Music
Stream millions of songs

Amazon Advertising
Find, attract, and engage customers

Amazon Drive
Cloud storage from Amazon

6pm
Score deals on fashion brands

AbeBooks
Books, art & collectibles

ACX
Audiobook Publishing Made Easy

Alexa
Actionable Analytics for the Web

Sell on Amazon
Start a Selling Account

Amazon Business
Everything For Your Business

Amazon Fresh
Groceries & More Right To Your Door

AmazonGlobal
Ship Orders Internationally

Home Services
Experienced Pros Happiness Guarantee

Amazon Ignite
Sell your original Digital Educational Resources

Amazon Web Services
Scalable Cloud Computing Services

Audible
Listen to Books & Original Audio Performances

Book Depository
Books With Free Delivery Worldwide

Box Office Mojo
Find Movie Box Office Data

ComiXology
Thousands of Digital Comics

DPReview
Digital Photography

East Dane
Designer Men's Fashion

Fabric
Sewing, Quilting & Knitting

Goodreads
Book reviews & recommendations

IMDb
Movies, TV & Celebrities

IMDbPro
Get Info Entertainment Professionals Need

Kindle Direct Publishing
Indie Digital & Print Publishing Made Easy

Amazon Photos
Unlimited Photo Storage Free With Prime

Prime Video Direct
Video Distribution Made Easy

Shopbop
Designer Fashion Brands

Amazon Warehouse
Great Deals on Quality Used Products

Whole Foods Market
America's Healthiest Grocery Store

Woot!
Deals and Shenanigans

Zappos
Shoes & Clothing

Ring
Smart Home Security Systems

eero WiFi
Stream 4K Video in Every Room

Blink
Smart Security for Every Home

Neighbors App
Real-Time Crime & Safety Alerts

Amazon Subscription Boxes
Top subscription boxes – right to your door

PillPack
Pharmacy Simplified

Amazon Renewed
Like-new products you can trust

Amazon Second Chance
Pass it on, trade it in, give it a second life

Conditions of Use Privacy Notice Interest-Based Ads © 1996-2021, Amazon.com, Inc. or its affiliates

COEX-8.176

12 ways Amazon gets you to spend more

cbsnews.com/media/12-ways-amazon-gets-you-to-spend-more/

LIONEL BONAVENTURE/AFP/Getty Images

By Morgan Quinn/GOBankingRates

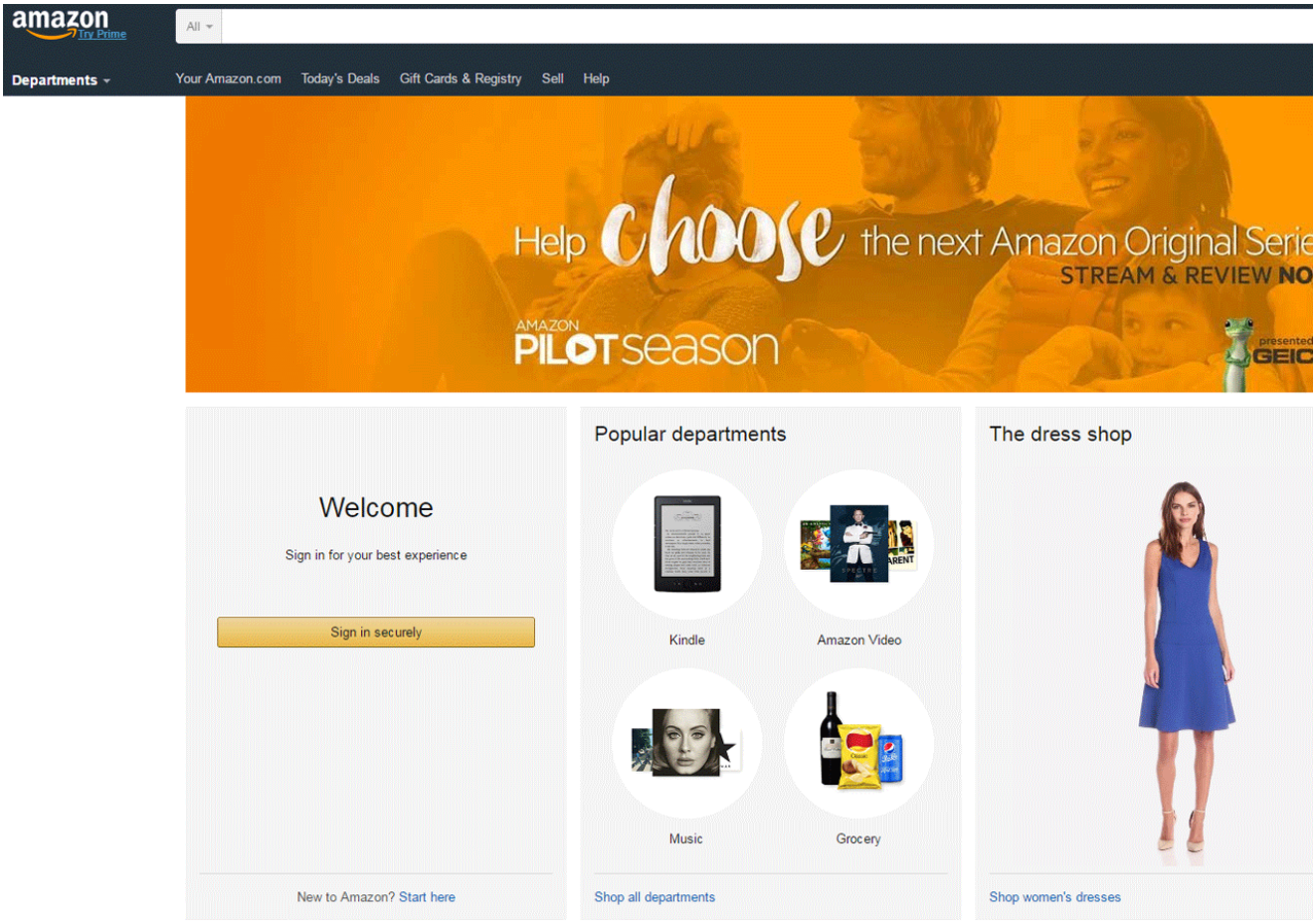
Amazon is one of the largest retailers in the world. Offering millions of items for sale, competitive pricing and free shipping deals, Amazon has had a significant impact on the way we shop for retail goods.

Sales in 2015 rose 20 percent to $107 billion, but profit margins at Amazon remain tight, with the company's net income totaling just $596 million, according to Fortune. In order to stay profitable, Amazon employs a number of strategies designed to incentivize customers to spend more.

Here are a few ways the company gets you to bust your Amazon budget.

This post was originally published by GOBankingRates.

1. Data-driven upsells



Amazon.com

Amazon uses a highly sophisticated algorithm to recommend the right products to the right customers, at just the right times. The company has access to data that allows it to analyze behavior from customers and use this information to recommend products to other shoppers with similar profiles.

According to Vadim Bichutskiy, director of data science at Innovizo, Amazon has pioneered a data-driven strategy for cross-selling and upselling.

"As an avid reader, I buy lots of books on Amazon, and on many occasions I have taken advantage of its 'Frequently Bought Together' and 'Customers Who Bought This Item Also Bought' features," said Bichutskiy. "Not only did I enjoy the books, but I never would have known about them without these recommendations."

In fact, Amazon attributes 35 percent of its revenue to cross-selling.

2. Free shipping offers

Getty Images

Amazon offers customers a few different ways to score lightning-fast shipping. You can pay $99 a year for an Amazon Prime membership, which gets you free, two-day shipping on most items and free, two-hour delivery in certain areas. If you don't want to pay for an Amazon Prime membership, you can spend at least $25 on books -- or $49 on other qualified items -- for free shipping.

Free shipping isn't free for Amazon, and the company has to make up its losses somehow. The idea behind the free shipping offers is to incentivize customers to pay extra for Prime Memberships or get them to increase the number of items in their carts. And the strategy works. Revenue from these incentives offsets Amazon's annual shipping costs, which Forbes estimated at $11.5 billion for 2015.

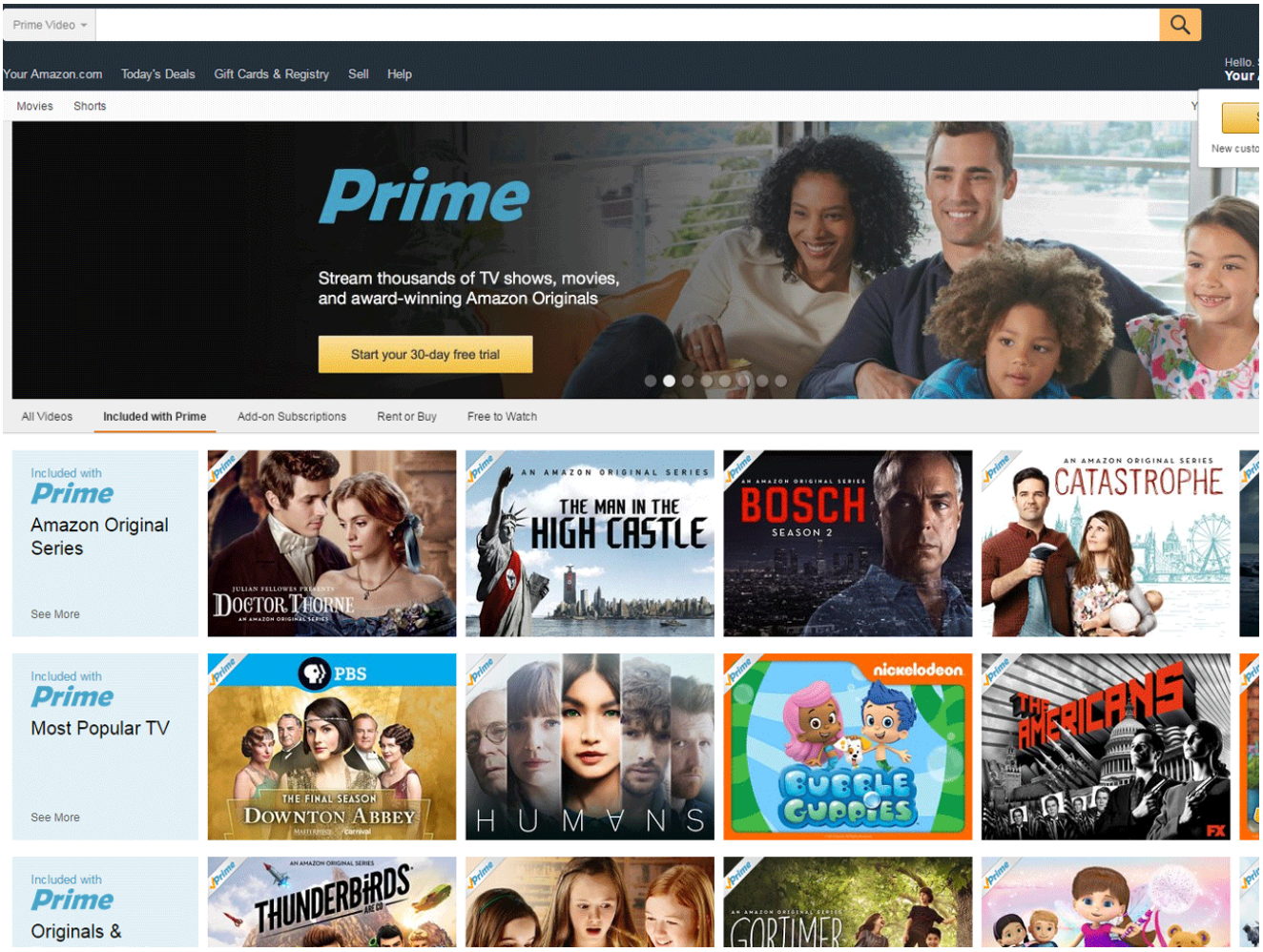
3. Amazon Prime membership

iStockphoto

Amazon Prime is a customer loyalty program that was originally designed to get customers to spend more. According to a report by the market research firm Consumer Intelligence Research Partners (CIRP), 40 million people in the U.S. have Amazon Prime memberships. As a result, they can take advantage of incentives like free expedited shipping, same-day delivery in certain areas, unlimited video and music streaming, early access to lightning deals, access to the Kindle Owners' Lending Library and discounts on diapers, video games and more.

Once you pay for an Amazon Prime membership, you will likely stop shopping at other stores in order to take advantage of all the benefits. According to the report, Amazon Prime members spend a jaw-dropping $1,500 a year with the retail giant, compared to non-Amazon Prime shoppers, who spend just $625 a year. Still, this program isn't a direct money-maker for the online retailer. According to Fortune, Amazon Prime has become a tool for acquiring new customers and building loyalty, so the company can make money off members in other ways, like video streaming and cross-selling.

4. Prime Instant Video

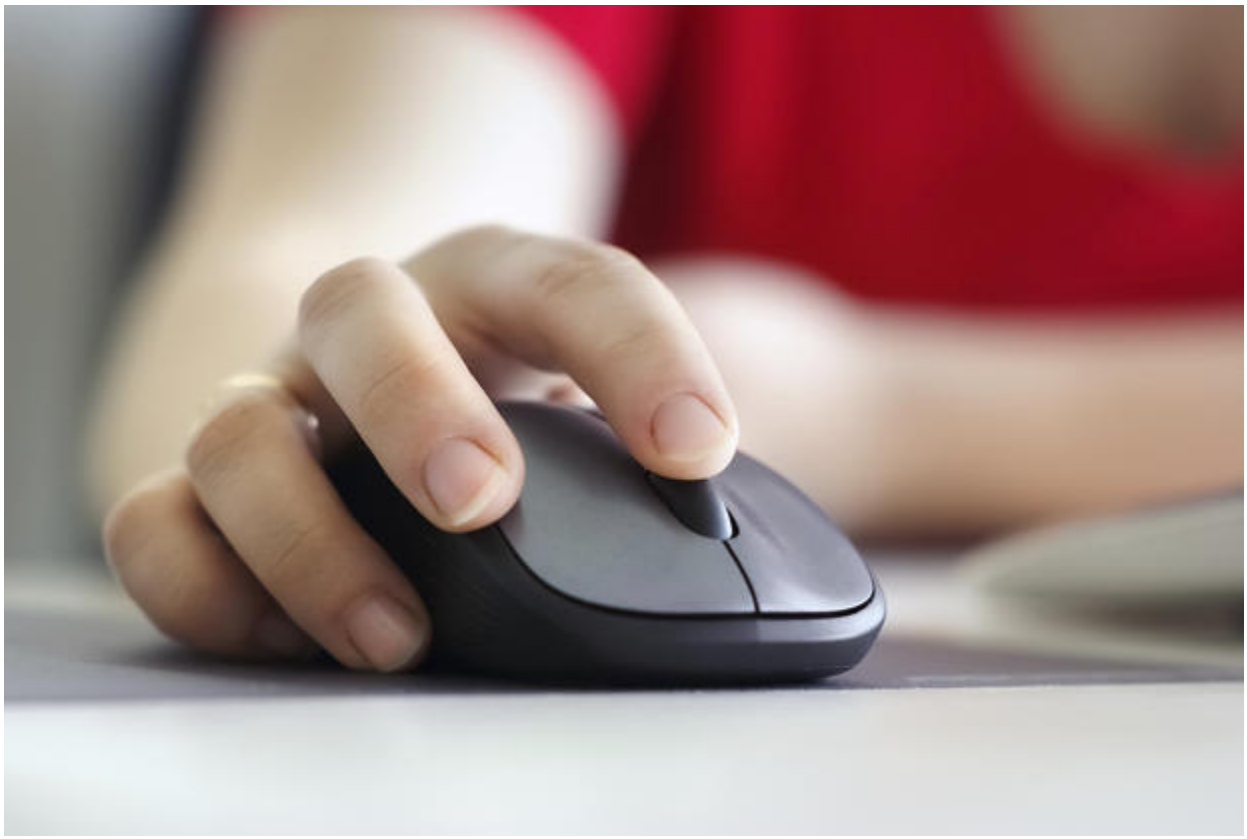


Amazon.com

Amazon Prime members have access to Prime Instant Video, which lets them stream popular shows, such as "Transparent," "Boardwalk Empire" and "Girls," along with movies like "The Big Lebowski," "When Harry Met Sally" and "Mad Max: Fury Road."

Prime Instant Video doesn't actually make the company money. However, Amazon has discovered that Prime members who use the free video streaming service are 10 times as likely to rent or buy movies from Instant Video as non-Prime members. So, once customers get into the habit of streaming free videos, Amazon has a chance to sell them on renting or buying videos that aren't available for free.

5. One-click ordering

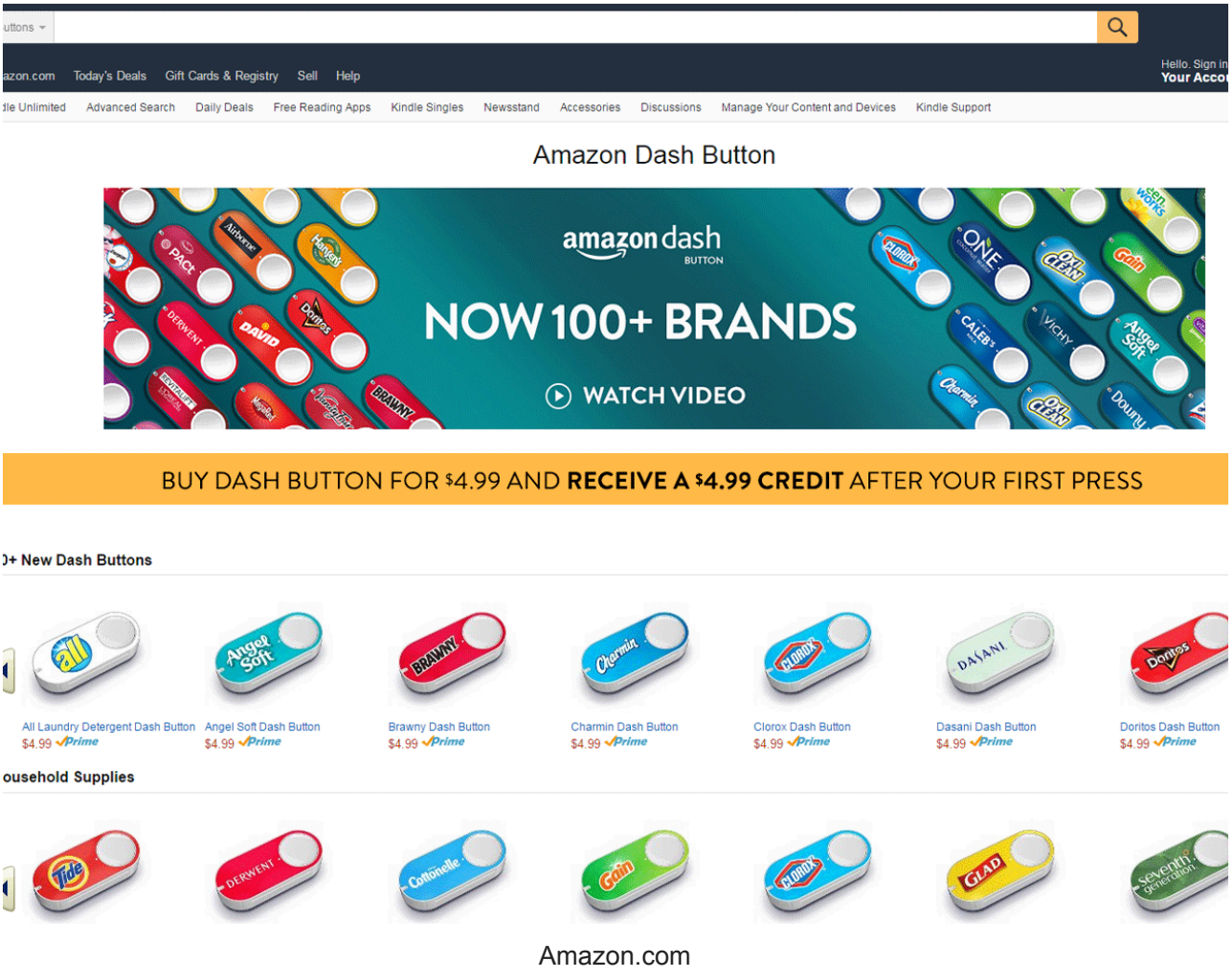


Getty Images/iStockphoto

Amazon actually owns the patent for 1-Click ordering, which has generated billions in revenue for the retail giant. Once customers' credit card payment and shipping information are stored on servers, they can simply click once to place orders without going through the checkout process.

This frictionless ordering system is another way in which Amazon disconnects customers from how much they are actually spending and encourages impulse buying.

6. Dash Button



Amazon.com

Amazon offers dozens of "Dash Buttons," which allow customers to reorder common household items like detergent, paper towels, diapers and pet supplies with the click of a button. Dash Buttons connect to Wi-Fi and can be placed anywhere in your home, so you don't need to get on a computer or smartphone to reorder -- just press the button, and you're done.

Dash Buttons might seem like a convenient service offering, but many people think they are just another Amazon trick to disconnect customers from the truth of their spending habits. And because Amazon limits the brands offered through Dash Buttons, customers aren't necessarily getting the best rates on items they need.

The customer pays a price for convenience, and Amazon reaps the rewards.

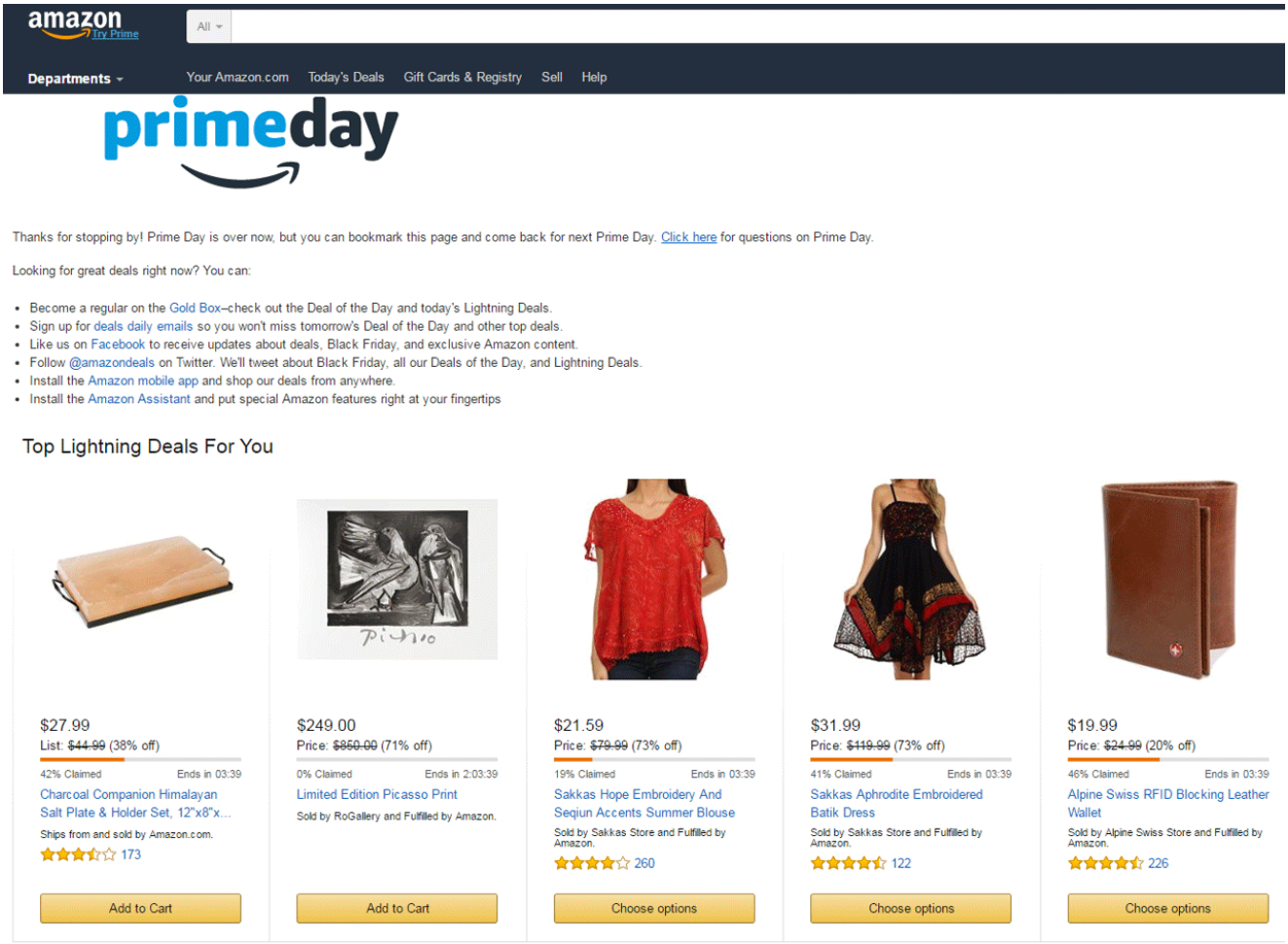
7. Kindle promotions

AP Photo/Ted S. Warren

The next time you see a promotion running for an Amazon Kindle, think twice before buying, as the "deal" might actually cost you in the long run. According to CIRP, Kindle owners spend an average of $1,450 per year at Amazon, compared to $725 for customers who don't own Kindles.

In a press release, CIRP co-founder Mike Levin said, "Similar to Amazon Prime members, Amazon Kindle owners are better customers. They also shop more frequently and buy more expensive items on average."

8. Prime Day

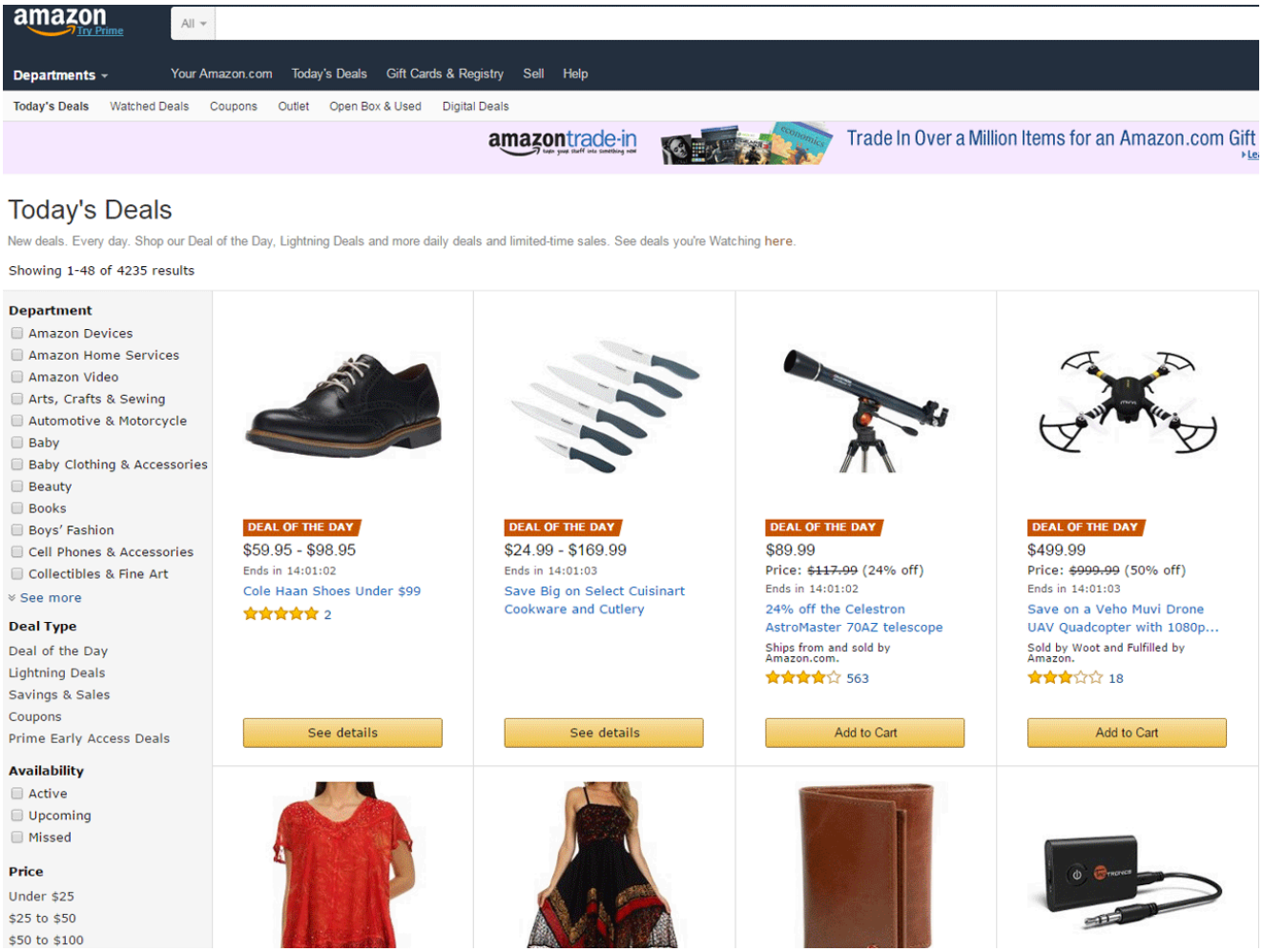


Amazon.com

Amazon's Prime Day is a 24-hour event during which members enjoy access to a wide array of products at below-average prices. To lure more customers into taking advantage of this promotion, Amazon offers a free, 30-day Prime membership, so anyone can participate in the event. By selling more Amazon Prime memberships, Amazon can increase its cross-selling opportunities and profits.

According to CNN Money, in 2015, Amazon Prime Day sales shot up 93 percent in the U.S. and 53 percent in Europe.

9. Lightning Deals



Amazon.com

Amazon's Lightning Deals can be found throughout the website and on the Gold Box page. These deals are limited to one per customer and usually have very short expiration dates. Along with making the offers time sensitive, Amazon creates a sense of urgency by displaying status bars that show the percentage of deals already in shoppers' carts and the percentage still available.

Amazon is notoriously reticent about how much revenue it gains off these deals, but the company is known to double-down on the strategy during certain holidays. For example, Amazon doubled its lightning deals to 30,000 during the 2015 holiday season, and customers jumped at the chance to score flash deals on electronics, TVs, jewelry and toys.

Amazon Prime members were also treated to 30-minute-early access to Lightning Deals. This discount is yet another way that the company can profit off its memberships.

10. Amazon Echo

CNET

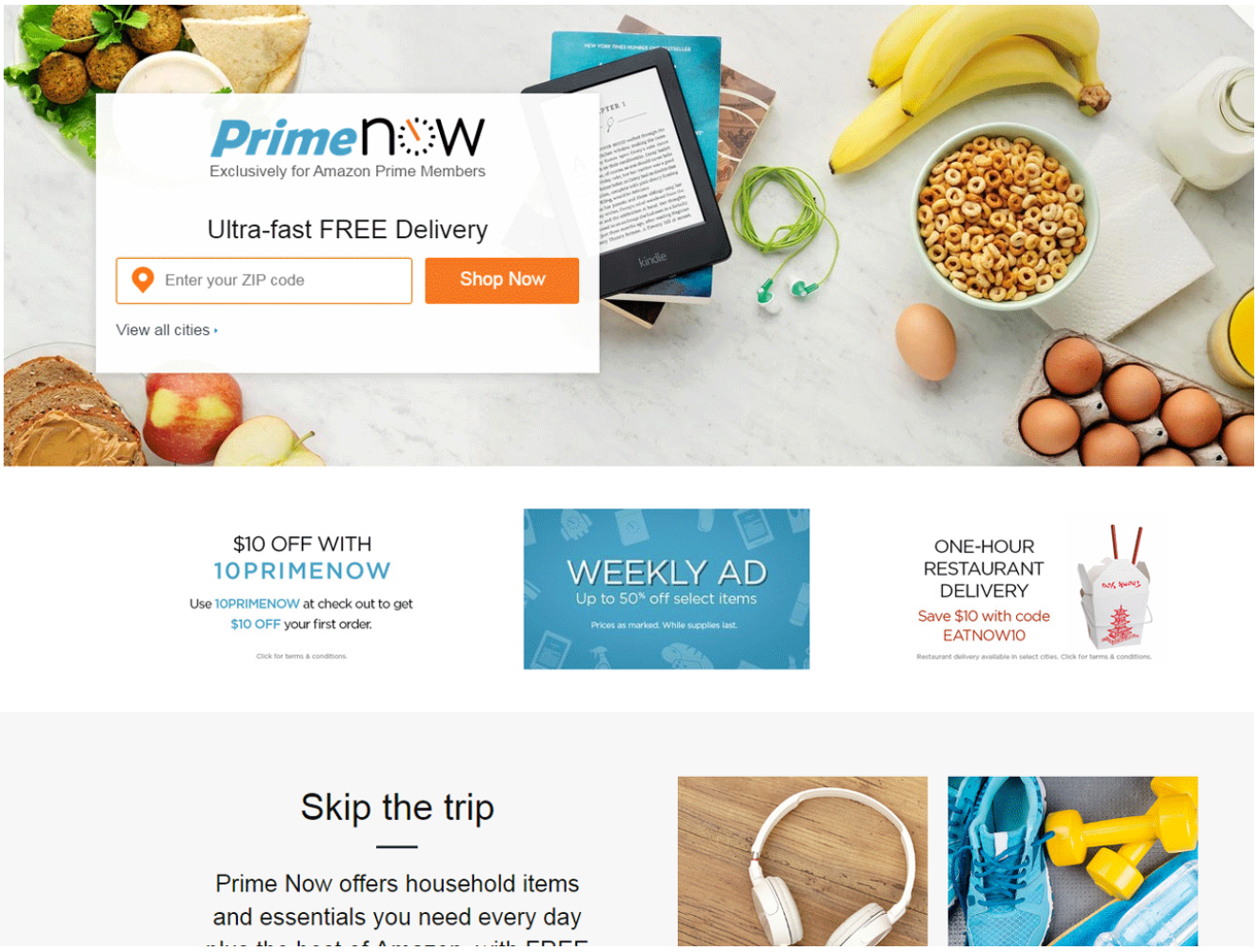
In April 2016, Amazon reported a staggering $29.1 billion in revenue, representing a 28 percent increase over the same period last year. A huge portion of these profits comes from Amazon capitalizing on "the internet of things" with products like the in-home personal assistant, Echo.

Costing about $180, Echo is a wireless, voice-operated speaker that features artificial intelligence. It's always ready to listen and can do anything from play music and games to set alarms, perform math equations and look up facts online.

Additionally, Echo allows customers to have hands-off access to Amazon -- and blindly purchase items from the company's website. Echo even has a friendly persona named Alexa, so you feel less like you're interacting with a company and more like you're shopping with a friend.

Amazon hasn't released sales figures, but CIRP estimates that more than 3 million Echoes have been sold since June of 2015.

11. Amazon Prime Now



Amazon.com

The latest addition to Amazon's speedy delivery options, Prime Now offers items in two hours or less. This service is free for Prime members but limited to certain cities and zip codes. Prime Now is just another way in which Amazon promotes its Prime memberships and keeps customers from spending money at other retailers.

Amazon Prime members can use Prime Now to have groceries, household items, office supplies even gifts delivered right to their doors. Amazon CEO Jeff Bezos said he will continue to invest in new warehouses and data centers, as well as additional services for Prime members.

12. Third-party sellers

LEON NEAL/AFP/Getty Images

It's become so easy to order products through Amazon that most customers don't bother to find out from where their merchandise is actually coming. So, instead of housing products in expensive warehouses and losing money on free shipping, Amazon has started employing third-party sellers.

Amazon's Marketplace allows smaller business to sell to millions of shoppers under the Amazon umbrella. It's estimated that independent sellers now account for 44 percent of Amazon's worldwide sales. Meanwhile, the company just sits back, relaxes and cashes in.

COEX-8.177

COEX-
8.177

How Google's $150 billion advertising business works

cnbc.com/2021/05/18/how-does-google-make-money-advertising-business-breakdown-.html

Megan Graham May 18, 2021

Key Points

- Google's conference for software developers, Google I/O, which kicks off Tuesday, typically intersperses deep tech talk with far-reaching visions of the future. But Google's main business is online advertising.
- More than 80% of Alphabet's revenue comes from Google ads, which generated $147 billion in revenue last year.
- Google has been the market leader in online advertising for well over a decade and is expected to command nearly a 29% share of digital ad spending globally in 2021.

In this article

GOOGL

The Google logo is seen January 8, 2020 at the 2020 Consumer Electronics Show (CES) in Las Vegas, Nevada.

ROBYN BECK /AFP

Alphabet's market capitalization of over $1.5 trillion makes it one of the most valuable publicly traded companies in the world, trailing only Apple, Microsoft and Amazon.

Created in 2015, Alphabet is essentially a holding company for Google, which generates nearly all of its revenue and profit. Google has always portrayed itself as a tech company and has invested in many far-reaching areas of technology — such as internet search, mobile phones, artificial intelligence, self-driving cars and health technology. Its conference for software developers, Google I/O, which kicks off Tuesday, typically intersperses deep tech talk with far-reaching visions of the future.

But Google's main business is online advertising. In 2020, Alphabet generated almost $183 billion in revenue. Of that, $147 billion — over 80% — came from Google's ads business, according to the company's 2020 annual report.

Google has been the market leader in online advertising for well over a decade and is expected to command nearly a 29% share of digital ad spending globally in 2021, according to eMarketer. Number-two Facebook is expected to capture less than 24%, while Alibaba is projected to be a distant third, with less than 9%.

Over the years, Google has built and acquired a slew of ad tech tools that enable content publishers to make money through advertising and let ad buyers seek out the kinds of people they would like to get in front of on Google Search, YouTube, Maps and on other websites across the internet. While Search and other properties make up the bulk of Google's ad revenues, its YouTube advertising business, which saw a near 50% year-over-year jump in the first quarter, is increasingly grabbing ad dollars away from traditional linear television.

Here are the major pieces of Google's advertising business and how they make money.

Search and other Google properties

Search is Google's most lucrative unit. In 2020, the company generated $104 billion in "search and other" revenues, making up 71% of Google's ad revenue and 57% of Alphabet's total revenue.

That "search and other" figure includes revenue generated on Google's search properties, along with ads on other Google-owned properties like Gmail, Maps and the Google Play app store.

Advertisers using Google products can bid on search keywords — specific words and phrases that lead their ads to show up to relevant users in search results.

Any advertiser can choose from different bidding strategies. If they want to generate traffic to their site, for instance, they might choose to do "cost-per-click" bidding, where they pay when someone clicks on their ads. They can choose a maximum amount they want to pay for that

click, and each time an ad is eligible to appear for a search, an auction will determine whether the ad shows up, and in which position.

Example of mattress ads on a Google search.

Megan Graham

"Usually, the more competitive and more expensive an industry is, the more expensive the bid is going to be," said Joe Balestrino, a digital marketing specialist.

"For example, if you're an attorney and you deal with crane accidents ... you're looking at about millions of dollars in lawsuit, you're probably going to pay a couple hundred dollars for that click. [Whereas] if you're running a house-cleaning business, you're probably paying $7 a click because your average sale is maybe 50 bucks. So depending on how competitive the niche and how much money a business owner stands to make, the more costly those keywords are," he said.

Google also lets advertisers target a location, language and audience — like people who are interested in buying finance-related products or services or who are renters vs. homeowners.

Buying a Search Ad in Google Ads

Megan Graham

The company primarily shows ads on commercial searches, which means about 80% of searches still aren't monetized through ads, according to estimates from Wedbush. As buying increasingly moves online, analysts expect ad budgets to continue shifting from areas like linear television and direct marketing into search.

But Amazon is increasingly competing with Google on search. Alhough eMarketer expects Google will account for a 56.8% share of all U.S. search ad revenue in 2021, Amazon's 19% share has been steadily growing. That's eroding Google's share of the ad market overall, according to eMarketer forecasts.

"The place where they're losing share is basically all about the search piece, and the reason that they're losing share of search ads is because more search ad spending is going to sites like Amazon, instead of general search sites like Google or Bing," said eMarketer principal analyst Nicole Perrin.

With people increasingly looking to buy online, it's not just to Google's benefit. "It's happening right now. It's been happening through the pandemic, there's been more digital demand for goods and services," she said. "Google has benefited from that, but Amazon has benefited more."

Analysts who are optimistic about Google's search business note that it has evolved throughout the years and will continue to do so, whether it's using voice and image searches or other innovations to get products in front of potentially interested eyeballs.

Meanwhile, products like Maps are becoming more strategic on the ad side. Using Google Maps, advertisers can buy ads for local business listings and "pins." Maps, which only began allowing ads in 2019, has 1 billion monthly active users and it's updated tens of thousands of times in a day.

Buying a Maps Ad in Google Ads

Megan Graham

Google doesn't break out how much its Maps business makes, but it's one of Google's most under-monetized products, Morgan Stanley analyst Brian Nowak told CNBC. He estimated it could be worth $11 billion by the year 2023.

Ads in Google Maps

Megan Graham

YouTube

YouTube is the smallest of Google's three main advertising revenue sources, accounting for nearly $20 billion in revenue in 2020 — about 13% of Google's total ad revenues.

However, YouTube is growing more quickly than the company's other major ad sources. The unit brought in $6.01 billion in ad revenue during the first quarter — up from $4 billion from a year earlier, for a growth rate of 49%. In comparison, "search and other" and Google Network revenues each increased 30% from the year-ago quarter in Q1.

If YouTube creators want to make money off their channel and are eligible, they can turn on ads for video and share ad revenue with Google for those ads. (To be eligible to monetize videos, a channel needs 4,000 public watch hours within the past 12 months, 1,000 subscribers, and must adhere to number of policies.) Ads are served through AdSense, Google Ad Manager and other YouTube-sold sources, which includes direct-sold deals. For instance, advertisers can buy on programs like YouTube Select, which allows them to buy on "brand-safe" videos and on certain audiences.

Creators running ads give a portion of their ad revenue to YouTube. But YouTube also can run ads on videos from channels that aren't in its partner program, meaning creators of those videos aren't taking a cut.

Creators can also earn money in other ways — for instance, by setting up memberships to their channels, by selling merchandise or by taking a cut when YouTube Premium members watch their videos.

A marketer wanting to purchase an ad on YouTube has a slew of options, including skippable or nonskippable ads that appear before, after, or in-stream of the video, video discovery ads (which direct users to other YouTube video or channels) and masthead ads.

A Chobani Oat pre-roll ad on YouTube

Megan Graham

Over the last several months, YouTube announced experimental features that not only identify products in videos, but also consolidate a list of those items. The recommended algorithms could then show related videos as users scroll through the site. That has gotten the attention of Wall Street analysts who told CNBC they see it as a big potential moneymaker.

"Despite the fact that it's already massive, it still feels like this sleeping giant inside of the Google ecosystem," said Myles Younger, a senior director at the global data practice at MightyHive.

Credit Suisse estimated such product updates will help personalize ads and boost YouTube's monetization, which stands at about $9.80 per user per year. That would help the company better compete against Facebook, which monetizes at about $30 per user per year, the firm estimated.

"I can't overemphasize how much advertisers love video," Perrin said. "Advertisers have just been wanting to turn the internet into TV because they want to run video ads against everything. They think that video is so much more compelling than other formats. ... Advertisers are very happy to have more video inventory available to them, especially if they can buy it programmatically at scale with data."

Google Network and ad tech for publishers

The third main component of Google's advertising revenue is the Google Network, which at $23 billion in 2020 made up about 16% of its total ad revenues.

This bucket includes revenue generated from selling ads outside of Google's own properties. Generally speaking, publishers or app makers can use Google platforms such as AdSense, Google Ad Manager, or AdMob to offer ad slots up for sale to advertisers. Publishers use these tools to manage their campaigns, while turning some inventory over to Google to match with advertisers. The publishers and Google split the revenue in various proportions depending on how much work each party is doing.

(The correlation between these products and Google's revenue reporting is not precise — for instance, AdSense not only serves publishers of third-party sites, but also lets YouTube content creators sell advertising on their videos.)

Here are the main tools that content creators use to participate in Google's technologies.

AdSense counts more than 2 million content publishers as customers. Approved publishers can enter their Google code onto their sites or videos, and advertisers bid to show up in those ad slots in auctions.

If a publisher's content displays an ad through AdSense, that publisher receives 68% of the revenue recognized by Google in connection with that service.

Website makers can also place search ads on their own sites or apps, which lets them earn revenue when their visitors click. Publishers receive 51% of the revenue from AdSense for Search.

Google estimates how much a "food and drink" site could make in North America with just over 2 million monthly page views.

Megan Graham

Google Ad Manager is an ad management platform for large publishers that have a significant amount of inventory they sell directly to advertisers. The platform supports multiple ad exchanges and networks, including Google's AdSense, Google's Ad Exchange (which lets publishers open up their ad inventory to a bigger pool of demand), and other third-party networks and exchanges. It includes pieces of its $3.1 billion DoubleClick acquisition from 2007, including DoubleClick for Publishers and the DoubleClick Ad Exchange.

AdMob, which Google acquired in 2009, is a platform for mobile app makers to sell ad space within their apps — like small banners that appear at the top or bottom of an app, or a pop-up that might appear between levels of a game. Makers of devices running on Apple's iOS and Android can use AdMob to earn money.

Google says more than a million apps use AdMob, and more than a million advertisers are on it. For the maker of a fitness and wellness iOS app in North America, Google estimates that appmaker could make more than $6,300 a year if it has 50,000 monthly active users.

Setting up ad units in AdMob

Megan Graham

Other ad tech products

Finally, Google has a slew of other products for all sorts of participants in the online advertising marketplace, including businesses of all types and sizes.

"I'm hard-pressed to think of any other tech stack that is as comprehensive" in terms of what it can do on both the buy side and sell side of advertising, said Younger. "There just isn't any other stack that offers all those pieces in one place."

Those products include:

Google Ads is a platform that helps advertisers run search, display, video, app, shopping and local ads with no minimum spend. The costs of these kinds of campaigns can entirely depend on what the advertiser wants to focus on achieving. Advertisers are charged when users interact with an ad, whether to call a business or to visit the site, and the cost can vary. The platform today is what used to be Google's AdWords business.

Google Marketing Platform has tools for major enterprise advertisers along with analytics tools for smaller businesses. The offering includes DoubleClick advertiser products and Google's Analytics 360 Suite.

Within the Google Marketing Platform sits Display & Video 360 (which contains what once was DoubleClick Bid Manager, Campaign Manager, Studio and Audience Center). DV360 offers a "single tool for planning campaigns, designing and managing creative, organizing and applying audience data, finding and buying inventory, and measuring and optimizing campaigns," according to Google's DV360 site.

"They're trying to give you an easy one-stop shop or place to see and manage it all; they're trying to give you all your data in one place," said Neil Patel, co-founder of Neil Patel Digital.

VIDEO3:0903:09

Resumption of advertising revenue key for Alphabet, analyst says

Squawk Box Europe

COEX-8.178

Pandora (P) Q317 Financial Results Conference Call November 2, 2017

Scripts for:

Dominic Paschel, Vice President, Pandora

Roger Lynch, President & CEO, Pandora

Naveen Chopra, CFO, Pandora

November 02, 2017

Dominic Paschel

Good afternoon, and welcome to Pandora's third quarter 2017 financial results call. Before we begin, let me remind everyone that today's discussion will contain forward-looking statements based on our current assumptions, expectations and beliefs, including projected financial results or operating metrics, business strategies, anticipated future products or services, anticipated market demand or opportunities and other forward-looking topics. For a discussion of the specific risk factors that could cause our actual results to differ materially from today's discussion, please refer to the documents we file with the Securities and Exchange Commission.

Also, during this call, we will discuss non-GAAP measures of our performance. GAAP financial reconciliations and supplemental financial information are provided in the press release filed today with the SEC, and detailed financials are available on our Investor Relations site.

Today's call is available via webcast and a replay will be available for two weeks. We will also post the full text of today's prepared remarks once they have been concluded. You can find all of the information I have just described on the Investor Relations section of Pandora.com. On today's call joining me are Roger Lynch, Pandora's new President & CEO, and Naveen Chopra, Pandora's Chief Financial Officer. With that, let me turn the call over to Roger, welcome Roger.

pandora®

Roger Lynch

Introduction

Thanks, Dom, and thank you everyone for joining today's call. I'm excited to be with you for my first earnings call with Pandora.

Vision

Pandora has made significant changes in its leadership in recent months, and I'm sure you're eagerly awaiting an update on our vision and strategy. Today I will be sharing some preliminary insights with more to come in early 2018.

In my six weeks as CEO, I've had the opportunity to meet with many stakeholders across our business - from advertisers, to label partners, technology partners, and of course, our employees across the country. And each of these conversations have helped shape my early vision for the company and our course ahead.

First and foremost, I believe everything we do needs to start with the customers we serve. At Pandora, these customers include both our listeners and our advertisers. We strive to be an irreplaceable and integral part of our listeners' everyday lives and our advertisers' evolving marketing needs.

For listeners, that means being able to find the content they want, and also discovering new content-- on any connected device and in any setting they desire. And for advertisers, it means being able to transact with us in the way *they* desire… with the ability to target, verify and measure the success of their campaigns, and to reach their audiences in new and innovative ways.

Assets / Competitive Advantages

There is no doubt that we have a lot of work to do to better meet the full spectrum of both our listeners' and advertisers' needs. But there is *also* no doubt that we have a great set of assets, which form a solid foundation on which to build.

To start, Pandora has **unparalleled scale**. We are the largest streaming audio service in the United States -- both for listeners and for advertisers. From a listener perspective, with 73.7 million active users, we touch more Americans than any other streaming music service. And from an advertiser perspective, we represent roughly two-thirds of all digital audio inventory making us the *largest* publisher of digital audio advertising in the US.

Pandora also enjoys **massive distribution** across a host of smart devices - in cars, connected speakers, and of course, mobile devices. In fact, Pandora is available today on over 2,000 unique devices, and growing; giving our listeners flexibility in how and where they listen, and advertisers the ability to reach their audience in myriad ways.

Another key advantage I've been impressed with is our **wealth of data and our advanced data science capabilities.** Pandora has more than 85 billion elements of feedback from our listeners and their musical tastes generated over 17 years. Data is at the core of our proprietary Music Genome Project - it's what fuels our ability to choose exactly the right next song for a listener. And increasingly, we see opportunity to use that data and our data science capabilities - along with new ad technology - to deliver the right ad to our listeners at just the right moment.

A final asset I'll touch on is Pandora's unique, **three-tiered service model.** With the launch earlier this year of Pandora Premium, our on-demand service, and the refresh of Pandora Plus, we're now beginning to address all forms of listening on our platform -- whether people are looking for a free ad-supported account, a flexible, ad-free subscription, or a full on-demand product. There is no longer a reason to leave Pandora for a different listening experience.

Meanwhile, it's our ability to effectively monetize our ad-supported audience - a challenge that only we in the industry have managed to solve - that allows us to sustain our other offerings. This gives us a leg up in a business that's otherwise challenged by high content costs and tight margins.

After taking a deeper look under the hood, the unique interplay of Pandora's advantages - our scale, our massive and expanding distribution, our wealth of data, and our three-tiered model - has left me even more excited about the possibilities for our business.

Near-term Challenges

Now, this isn't to say there aren't some real issues that we need to address, and we need to address them quickly. Pandora is very much a business in transition, and there are tangible challenges.

In particular:

- our user base has declined in recent quarters;
- our ad revenue has not grown as much as we would have liked; and, as a result,
- our shareholders returns have been poor.

These are the challenges I'm focused on addressing so we can achieve long-term success. How will we do it? Simply stated, I want us to execute simultaneously against two macro goals: *First*, it is essential that we stabilize and then grow our base of listeners. *Secondly*, we need to hold onto and build on our status as a best-in-class publisher of targeted digital advertising, which means a significant upgrade to our advertising technology and the capabilities we can offer advertisers.

pandora®

Areas of Focus

Let me first expand on the listener point. We have more than 93 million users who come to Pandora on a quarterly basis, but only 73.7 million MAUs. So how do we get folks to engage more frequently and more extensively? I see at least four opportunities that, over time, can materially bend the curve on active users.

1. **The first is by tapping into new forms of content.** To-date, Pandora has primarily been a music-focused service. During 2018, we will expand on the initial success we saw with *Serial* and *This American Life*. New forms of content - like podcasts, spoken word, and traditional radio -- will expand engagement with our existing audience and attract new and lapsed listeners. Now, by no means will non-music content become the majority of our listening, but we do expect, over time, that it will be material both in terms of driving usage and in normalizing and potentially lowering our overall effective content costs. Tapping into a rapidly growing market, we will harness our scale, distribution, data and discovery capabilities -- all of the advantages I just spoke about -- to deliver non-music content in a very unique way. In turn, I believe these new forms of content will help draw a broader audience into Pandora and to the core music service we offer.

2. Now, I also see opportunity with **new methods of distribution**. There's a very significant shift happening in how people access audio content. Digital audio, which used to be limited to mobile devices and the web, is now exploding into new forms of listening, integrated into new smart devices, connected homes and auto …all of which is beneficial for Pandora.

   Take the area of the connected home, for example. It's no secret that voice-activated devices are exploding as a category. Pandora listening on voice-activated devices is up 300% year-over-year. These devices are a perfect match for Pandora, since they highlight the value of both interactive and lean-back listening experiences. They also expand the potential for future innovation with voice-activated advertising.

We'll be expanding our partnerships with new and existing device partners to make sure all three tiers of Pandora's service show up on all the devices we're on, taking full advantage of the scale and audience our partners offer…and making sure the overall experience is intuitive and seamless.

For example, being Comcast's preferred music partner has helped introduce Pandora into millions of living rooms. Right now we are working with them on a deeper integration that will bring Pandora even more to the forefront of the X1 experience, right next to other best-in-class entertainment providers like Netflix, YouTube and HBO. The compelling aspect of these partnerships is the ability to drive direct billed subscribers which can lead to better economics in the business. Expect to see more details about our deeper integration with Comcast soon and more partnerships like this with other Tier 1 partners.

3. **Third, I see a big opportunity to attract and retain listeners by bringing more competitive features to our ad-supported tier.** The industry has seen a big shift in listening toward ad-supported, or "free", on-demand, as exhibited by the emergence and growth of YouTube, Vevo and others. When you look at the top reasons why listeners leave the Pandora experience, it's because they cannot hear the song they want on-demand. This is particularly important to younger listeners.

We've taken some steps to find new, creative ways to unlock interactive features in our ad-supported tier with innovative products like Sponsored Listening - an ad product that rewards listeners with more skips and replays when they complete an ad view. And we're committed to finding more ways to add competitive features to our ad-supported tier, so we can participate in this market opportunity; and do so in a way that delights listeners and benefits artists and other rightsholders.

We know there is power in marrying rewards-based advertising to the features our listeners are seeking. And I believe there is space for us to do more in this area -- so we can draw in and engage listeners, while at the same time delivering high-value attention opportunities to our advertisers.

4. **Finally, I believe we'll see significant return by optimizing our marketing execution.** So as new forms of content, new partnerships and new innovative features start coming online, we'll be making sure we're telling people about them in the most effective, efficient way possible. This starts with an acute focus on performance marketing. We will make sure we're allocating our marketing dollars in a disciplined way that's based on an assessment of the full lifetime value of the audience we're gaining.

   I also believe we can leverage our partners and partner marketing more aggressively and in ways we haven't in the past to drive joint results. A great building block is our recent T-mobile Tuesdays promotion -- a showing of two strong brands coming together to benefit both companies and our customers.

   Both of these areas - performance and partner marketing -- are ones I have significant experience with from my time at Sling. While it may take some near-term investment in our marketing technology tools to automate this as much as possible, based on my experience it will be well-worth it. We're fortunate at Pandora that we have a wealth of data and data science capabilities to pull from that will allow us to personalize our marketing in an intelligent and targeted way. Combined with a performance and partner led approach, I expect we'll see much greater return from the marketing dollars we spend in terms of attracting and scaling our audience across all our tiers.

Now let me switch over to discussing the other big issue that I'm focused on addressing, our **ad tech gaps**. One consistent theme I've heard from advertisers is that we don't have all the features they need to easily transact with us and drive their campaigns. And this *is* starting to have a material impact on our revenue.

We know that we need to invest in our ad tech to make Pandora a more efficient advertising partner and to become more competitive with our digital peers. And we are continuing to bring more engineering resources to focus on improvements in this area.

This includes expanding access to our data and engagement metrics, so advertisers can monitor and adjust their campaigns more quickly and increase their ROI. And, increasing the number of ways partners can transact with us, through both programmatic capabilities -- which we recently made available in beta on video, coming soon on audio -- and, eventually, with self-service tools.

Investing to shore up our ad tech gaps will take some time to develop and implement, but will provide returns in several ways:

1. We expect to see a direct impact to our top line revenue by recapturing lost dollars;
2. The improvements will also help our bottom line by removing inefficiencies in the very manual way the team currently needs to work to fulfill orders and requests; and
3. They will help unlock new revenue opportunities in markets we currently don't serve -- making sure we're able to capture all parts of the demand curve.

As I said, we know this work will take time. And because of the urgency, we're going to look carefully at both build versus buy options.

If we're successful with these investments, and combine new technology with the existing data science capabilities I described, I believe we can intelligently raise ad load, increase sell-through, command premium pricing, and ultimately drive faster revenue growth . . . all while protecting the listener experience.

Improving ad tech is just one example of how we can operate in smarter ways across our business to drive results and improve operating leverage over time. I see opportunities for automation, operational efficiencies and investment focus in many areas -- from how we transact, to how we bill, measure, and market.

Given the nature of these opportunities, there's no silver bullet that will immediately address all the challenges I laid out. We need to focus on reviving user growth at the same time we improve our ad tech, while also ensuring we are making decisions that set us up for long-term profitability.

If we're able to do these things in tandem, I believe we will see shareholder value start to build throughout 2018 and beyond.

Conclusion

To me, achieving all this together for our listeners, advertisers, shareholders, employees and partners is an exciting challenge that is within our reach, and the exact reason I joined Pandora. I very much look forward to working with our newly constituted board of directors and our new investor, Sirius XM, to drive our business forward.

Now I'll turn the call over to Naveen to review our third quarter results. Naveen?

Naveen Chopra

Brief Overview of Q3 Financials

Thanks Roger. And welcome to your first Pandora earnings call.

The third quarter included some important changes for Pandora, most notably Roger coming on board, the completion of the second tranche of the Sirius investment, and closing of the Ticketfly sale. Financially, Q3 was a solid quarter with revenue of $378.6 million, slightly above the midpoint of our guidance. Revenue grew 10% year-over-year after adjusting for the divestiture of Ticketfly and the exit of our Australia / New Zealand business. Adjusted EBITDA in Q3 was a loss of $5.3 million, which is very close to the top end of our guidance. I'll share more detail on revenue and adjusted EBITDA drivers in a moment, but first I'll walk through some important listener engagement metrics.

Active Users, Hours, and Engagement

For the quarter, active users were 73.7 million. It's important to remember that this active user number excludes approximately 1.1 million active users from Australia/New Zealand, where we ceased operations during the quarter. Adjusting for ANZ, actives were down 4% year-over-year, a part of which we attribute to the natural disasters that occurred in Texas and Florida. Those regions typically generate heavy Pandora listening by virtue of their large populations. Total hours, again adjusted for ANZ, declined by approximately 4% year-over-year, which was an improvement over the 7.9% year-over-year decline we experienced in Q2. This quarter, total hours were primarily impacted by the decrease in active users and to a lesser extent, hours controls and playlist enhancements. These dynamics also caused a year-over-year decline in ad hours. Additionally, ad hours were impacted by the movement of ad-supported listeners to our subscription tiers and participation in subscription trials. Listener engagement continues to be strong. Monthly hours per active listener were the second highest ever at 23 hours per listener.

As Roger noted, stabilizing and ultimately growing our audience is a major priority, and we have a number of initiatives underway that are designed to reengage lapsed listeners, starting with the roughly 20 million gap between our monthly and quarterly active users. We have several powerful levers to apply in this area, including new forms of content like podcasts and traditional radio content, compelling new features in our ad-supported product, deeper integration with connected devices, and a focus on marketing optimization. We are bullish about the potential of these initiatives but also conscious of the fact that it may take a few quarters to stabilize and ultimately return to listener growth.

Q3 Advertising Revenue

Q3 advertising revenue was $275.7 million, up approximately 1% year-over-year when adjusting for the shut-down of ANZ. Ad RPM grew 21% year-over-year to $70.27, setting an all-time high. The increase in ad RPM versus the year ago period was driven by higher ad-loads, an increase in blended effective CPMs, and to a lesser extent, improvements in sell through.

As expected, we continue to see strong improvements in audio CPMs, which increased 16% sequentially and 47% from Q1 to Q3 of 2017. We expected this improvement starting because we have consciously moved away from performance-based audio advertising and pushed more inventory through premium channels.

We believe Q3 advertising revenue would have been higher were it not for four identifiable headwinds that materialized toward the end of the quarter. These included:

- Weak macroeconomic conditions for our retail, automotive and CPG categories
- Listener hour declines which I referenced earlier
- Ad sales slowdown in hurricane affected areas
- and ad-tech limitations in several key areas.

Now obviously, some of these headwinds are beyond our control, but the ones that are controllable, define our near-term investment priorities. Namely, the audience growth initiatives I described, and the critical need to enhance our ad-tech position. As I have previously shared, we have opportunities to capture significantly more ad revenue growth through the development of innovative ad formats, improved measurement and ROI capabilities, and new transaction options including both programmatic and self-serve. Additionally, we believe operating leverage in the advertising business can be improved with investments in technology that reduce the amount of manual work in several parts of our advertising operation. I think it is fair to say that Roger and I both see our ad-tech gaps and audience growth initiatives as equally important priorities in driving future growth for Pandora.

Subscription Revenue

Subscription and other revenue was $84.4 million, an increase of 50.5% over the same period in 2016. We added 320,000 net new subscribers in Q3, bringing our cumulative subscriber base to 5.19 million. I also note that, as of today, we have obtained well over 1 million Premium subscriptions, and we continue to develop new go-to-market partnerships, family and student plans, and bring Premium to desktop, tablet, CE, and auto platforms. These results demonstrate the important strategic role that subscriptions play in our business. There are clearly a meaningful number of listeners seeking interactive features, and we now have compelling subscription services to keep those users in our ecosystem and generate incremental contribution margin. But at the same time, it is clear that there are many users who prefer to remain in an ad-supported tier or a lower priced subscription. These users are also highly valuable to us, so we expect to continue our portfolio approach by enhancing features across all service tiers and by targeting our marketing to ensure we steer listeners to the stickiest tier in light of their personal usage habits.

Content Costs

While total content costs as a percentage of total revenue increased from 50% to 54% year-over-year, ad-related content costs as a percentage of advertising revenue decreased approximately 2% from the year ago quarter, reflecting increases in ad RPM and illustrating the opportunity to expand contribution margins

in our ad-tier through topline growth. Q3 ad LPM was $37.01. Relative to the year-ago period the increase in ad LPM reflects the impact of direct deals and minimum guarantees. The sequential increase in ad LPM is caused by accruals for certain tier-specific minimum guarantees. Additionally, Q2 and Q3 LPMs reflect the fact that we are not yet eligible for volume discounts tied to certain subscriber thresholds. We expect ad LPMs to continue to fluctuate as subscriber trajectories evolve due to the nature of accounting for minimum guarantees (MGs). In fact, we expect ad LPMs to decline materially in Q4 as the impact of MGs will be less significant and because we have negotiated modifications with some of our content partners.

On the subscriber side, Q3 licensing cost per subscriber (or LPU), was $3.87, up from $2.14 last year, and from $3.11 in the prior quarter. These increases are largely driven by the mix shift from Pandora Plus to Premium.

Gross Margin

Non-GAAP gross margin was 37%, compared to 40% in the year-ago quarter. The decline in margin year-over-year was driven by higher content costs under direct deals versus statutory rates. Sequentially, Non-GAAP gross margin increased from 36% in Q2 to 37% in Q3, driven by higher RPMs during the quarter. We continue to expect gross margins to improve over time with improvements in ad monetization, and as we achieve scale benefits in the subscription side of the business.

Q3 Operating Expenses

Turning to operating expenses, for the third quarter of 2017 non-GAAP sales and marketing expense was $92.9 million, compared to $97.8 million a year-ago. The reduction reflects different timing of external marketing spend relative to 2016 and also incorporates the sale of Ticketfly. We continue to expect full-year sales and marketing expense for 2017 to be comparable to 2016. Sequentially, Non-GAAP sales and

marketing expense was down $33.7 million, due to the marketing campaign we ran in Q2 to support the launch of Premium.

Non-GAAP product development expense was $30.9 million for the third quarter, an increase of 27% compared to the third quarter of 2016. This increase reflects an increase in engineering headcount and a reduction in capitalized development. Product development expenses declined sequentially due to the sale of Ticketfly.

Non-GAAP G&A expense was $31.6 million, a decline of 3.7% compared to the year ago period. G&A was also down as a percent of revenue, from 9.3% in the year-ago quarter to 8.3% in Q3 as a result of the workforce reduction earlier in the year and the sale of Ticketfly. We expect G&A as a percentage of revenue, as well as absolute dollars, to decline for the remainder of the year due to the sale of Ticketfly.

Adjusted EBITDA

As noted earlier, adjusted EBITDA for the third quarter was a loss of $5.3 million, near the top end of our guidance range. Notably, non -GAAP Sales and Marketing expense, G&A expense, and total operating expense represented a lower percentage of revenue compared to the year-ago quarter. We continue to look for opportunities to achieve operating leverage, while focusing investment in high-priority areas.

EPS

Third quarter 2017 GAAP basic and diluted net loss per share was $0.34. Non-GAAP basic and diluted net loss per share was $0.06. GAAP and non-GAAP basic and diluted EPS were based on 246 million weighted average common shares outstanding.

Balance Sheet and Cash Flow

We ended the third quarter with $499.4 million in cash and investments compared to $227.6 million at the end of the prior quarter. Our ending cash balance incorporates $307.5 million of gross cash proceeds from

the close of the second tranche of the Sirius investment and $150 million of gross cash proceeds from the sale of Ticketfly. During the quarter we used $79.2 million of cash in operating activities. As a reminder Q3 tends to be a period of heavy cash usage due to the timing of prepayments around the anniversary of our label deals. Additionally, during Q3 we repaid the $90 million balance on our revolver.

Guidance

I'd now like to address Q4 guidance. From a qualitative perspective, we expect many of the headwinds that constrained ad revenue in Q3 to sustain through Q4. We expect market conditions in retail, CPG, and auto accounts to remain challenging, resulting in continued pressure on our advertising revenues. Additionally, the MAU trends and ad-tech challenges we face will take some time to address, and will therefore, also impact advertising revenue in Q4. Quantitatively, we expect Q4 total revenue in the range of $365 to $380 million, the midpoint of which reflects 3.3% growth versus the year ago period when adjusting for Ticketfly, ANZ, and roughly $10 million of political advertising revenue we recognized last Q4. Our Q4 revenue guidance incorporates continued subscription growth offset by a year-over-year reduction in advertising revenue. With respect to the year-over-year ad revenue trend in Q4, it is important to note that 2016 included significantly better than expected overall ad results and a heavy political year. Q4 adjusted EBITDA is expected in the range of a $15 million loss to a $5 million loss. Adjusted EBITDA differs from GAAP net loss in that it excludes forecasted stock based compensation expense of approximately $34 million, depreciation and amortization expense of approximately $14 million, other expense of approximately $6 million and provision for income taxes of approximately $0.4 million and assumes minimal cash taxes given our net loss position. The company is currently forecasting a non-GAAP effective tax rate of approximately 32% to 37% for the full year 2017. However, the company is not expected to incur any material cash taxes due to its net operating loss position. Basic shares outstanding for the calendar year 2017 are expected to be approximately 244 million. Basic shares outstanding for the fourth quarter of 2017 are expected to be approximately 249 million.

Summary

I'd like to close by saying that I look forward to working closely with Roger and the rest of the Pandora team as we pursue several key initiatives to expand our audience and enhance monetization. We have great assets from which to build and a strong balance sheet to support growth. Though it's not an overnight process, I believe Pandora is now focused on realistic execution toward a plan that leverages our strengths to achieve sustained profitability and corresponding returns for our shareholders.

With that, I'll turn the call to the operator, who will open the line for your questions. Operator?

COEX-8.179

Fortune 500

Looking For Something? SEARCH

2019 2018 2017 2016 2015 2014 2013 2012 2011 2

Filters

SECTOR

INDUSTRY

HEADQUARTERS CITY

HEADQUARTERS STATE

- GAINED IN RANK
- DROPPED IN RANK
- NEWCOMER TO THE FORTUNE 500
- PROFITABLE
- FOUNDER IS CEO
- FEMALE CEO

- ☐ GROWTH IN JOBS
- ☐ GLOBAL 500
- ☐ BEST COMPANIES
- ☐ WORLD'S MOST ADMIRED COMPANIES
- ☐ CHANGE THE WORLD
- ☐ FASTEST GROWING COMPANIES

RANK	NAME	REMOVE ✕ REVENUES ($M)	REMOVE ✕ REVENUE PERCENT CHANGE	REMOVE ✕ PROFITS ($M)	REMOVE ✕ PROFITS PERCENT CHANGE	REMOVE ✕ ASSETS ($M)
1	Walmart	$514,405.0	2.8%	$6,670.0	-32.4%	$219,295.0
2	Exxon Mobil	$290,212.0	18.8%	$20,840.0	5.7%	$346,196.0
3	Apple	$265,595.0	15.9%	$59,531.0	23.1%	$365,725.0
4	Berkshire Hathaway	$247,837.0	2.4%	$4,021.0	-91.1%	$707,794.0
5	Amazon.com	$232,887.0	30.9%	$10,073.0	232.1%	$162,648.0
6	UnitedHealth Group	$226,247.0	12.5%	$11,986.0	13.5%	$152,221.0
7	McKesson	$208,357.0	4.9%	$67.0	-98.7%	$60,381.0
8	CVS Health	$194,579.0	5.3%	$-594.0	-109.0%	$196,456.0
9	AT&T	$170,756.0	6.4%	$19,370.0	-34.2%	$531,864.0
10	AmerisourceBergen	$167,939.6	9.7%	$1,658.4	355.0%	$37,669.8

11	Chevron	$166,339.0	23.6%	$14,824.0	61.2%	$253,863.0
12	Ford Motor	$160,338.0	2.3%	$3,677.0	-51.6%	$256,540.0
13	General Motors	$147,049.0	-6.5%	$8,014.0	-	$227,339.0
14	Costco Wholesale	$141,576.0	9.7%	$3,134.0	17.0%	$40,830.0
15	Alphabet	$136,819.0	23.4%	$30,736.0	142.7%	$232,792.0
16	Cardinal Health	$136,809.0	5.3%	$256.0	-80.1%	$39,951.0
17	Walgreens Boots Alliance	$131,537.0	11.3%	$5,024.0	23.2%	$68,124.0
18	JPMorgan Chase	$131,412.0	15.4%	$32,474.0	32.9%	$2,622,532.0
19	Verizon Communications	$130,863.0	3.8%	$15,528.0	-48.4%	$264,829.0
20	Kroger	$121,162.0	-1.2%	$3,110.0	63.1%	$38,118.0
21	General Electric	$120,268.0	-1.6%	$-22,355.0	-	$309,129.0
22	Fannie Mae	$120,101.0	6.9%	$15,959.0	547.9%	$3,418,318.0
23	Phillips 66	$114,217.0	24.7%	$5,595.0	9.6%	$54,302.0
24	Valero Energy	$111,407.0	26.0%	$3,122.0	-23.2%	$50,155.0
25	Bank of America	$110,584.0	10.3%	$28,147.0	54.4%	$2,354,507.0
26	Microsoft	$110,360.0	22.7%	$16,571.0	-21.8%	$258,848.0

27	Home Depot	$108,203.0	7.2%	$11,121.0	28.9%	$44,003.0
28	Boeing	$101,127.0	8.3%	$10,460.0	27.6%	$117,359.0
29	Wells Fargo	$101,060.0	3.4%	$22,393.0	0.9%	$1,895,883.0
30	Citigroup	$97,120.0	10.4%	$18,045.0	-	$1,917,383.0
31	Marathon Petroleum	$97,102.0	43.6%	$2,780.0	-19.0%	$92,940.0
32	Comcast	$94,507.0	11.8%	$11,731.0	-48.4%	$251,684.0
33	Anthem	$92,105.0	2.3%	$3,750.0	-2.4%	$71,571.0
34	Dell Technologies	$90,621.0	15.2%	$-2,310.0	-	$111,820.0
35	DuPont de Nemours	$85,977.0	37.2%	$3,844.0	163.3%	$188,030.0
36	State Farm Insurance	$81,732.2	4.3%	$8,788.4	298.3%	$272,518.4
37	Johnson & Johnson	$81,581.0	6.7%	$15,297.0	1076.7%	$152,954.0
38	IBM	$79,591.0	0.6%	$8,728.0	51.7%	$123,382.0
39	Target	$75,356.0	4.8%	$2,937.0	0.1%	$41,290.0
40	Freddie Mac	$73,598.0	-1.4%	$9,235.0	64.2%	$2,063,060.0
41	United Parcel Service	$71,861.0	9.1%	$4,791.0	-2.4%	$50,016.0
42	Lowe's	$71,309.0	3.9%	$2,314.0	-32.9%	$34,508.0
43	Intel	$70,848.0	12.9%	$21,053.0	119.3%	$127,963.0

44	MetLife	$67,941.0	2.7%	$5,123.0	27.8%	$687,538.0
45	Procter & Gamble	$66,832.0	0.9%	$9,750.0	-36.4%	$118,310.0
46	United Technologies	$66,501.0	11.1%	$5,269.0	15.8%	$134,211.0
47	FedEx	$65,450.0	8.5%	$4,572.0	52.6%	$52,330.0
48	PepsiCo	$64,661.0	1.8%	$12,515.0	157.7%	$77,648.0
49	Archer Daniels Midland	$64,341.0	5.8%	$1,810.0	13.5%	$40,833.0
50	Prudential Financial	$62,992.0	5.5%	$4,074.0	-48.2%	$815,078.0
51	Centene	$60,116.0	23.8%	$900.0	8.7%	$30,901.0
52	Albertsons	$59,924.6	0.4%	$46.3	-	$21,812.3
53	Walt Disney	$59,434.0	7.8%	$12,598.0	40.3%	$98,598.0
54	Sysco	$58,727.3	6.1%	$1,430.8	25.2%	$18,070.4
55	HP	$58,472.0	12.3%	$5,327.0	110.9%	$34,622.0
56	Humana	$56,912.0	5.8%	$1,683.0	-31.3%	$25,413.0
57	Facebook	$55,838.0	37.4%	$22,112.0	38.8%	$97,334.0
58	Caterpillar	$54,722.0	20.4%	$6,147.0	715.3%	$78,509.0
59	Energy Transfer	$54,436.0	14.6%	$1,694.0	77.6%	$88,246.0

60	Lockheed Martin	$53,762.0	5.3%	$5,046.0	152.0%	$44,876.0
61	Pfizer	$53,647.0	2.1%	$11,153.0	-47.7%	$159,422.0
62	Goldman Sachs Group	$52,528.0	24.3%	$10,459.0	144.0%	$931,796.0
63	Morgan Stanley	$50,193.0	15.0%	$8,748.0	43.2%	$853,531.0
64	Cisco Systems	$49,330.0	2.8%	$110.0	-98.9%	$108,784.0
65	Cigna	$48,650.0	16.9%	$2,637.0	17.9%	$153,226.0
66	AIG	$47,389.0	-4.3%	$-6.0	-	$491,984.0
67	HCA Healthcare	$46,677.0	-2.0%	$3,787.0	70.9%	$39,207.0
68	American Airlines Group	$44,541.0	5.5%	$1,412.0	-26.4%	$60,580.0
69	Delta Air Lines	$44,438.0	7.7%	$3,935.0	10.0%	$60,266.0
70	Charter Communications	$43,634.0	4.9%	$1,230.0	-87.6%	$146,130.0
71	New York Life Insurance	$43,425.3	2.7%	$880.0	-52.9%	$311,449.3
72	American Express	$43,281.0	21.6%	$6,921.0	153.0%	$188,602.0
73	Nationwide	$43,270.0	-1.5%	$512.6	107.9%	$214,141.9
74	Best Buy	$42,879.0	1.7%	$1,464.0	46.4%	$12,901.0
75	Liberty Mutual Insurance Group	$42,685.0	-0.0%	$2,160.0	12605.9%	$125,989.0

76	Merck	$42,294.0	5.4%	$6,220.0	159.8%	$82,637.0
77	Honeywell International	$41,802.0	3.1%	$6,765.0	308.8%	$57,773.0
78	United Continental Holdings	$41,303.0	9.5%	$2,129.0	-0.1%	$44,792.0
79	TIAA	$41,052.1	14.0%	$1,560.5	48.7%	$568,190.2
80	Tyson Foods	$40,052.0	4.7%	$3,024.0	70.5%	$29,109.0
81	Oracle	$39,831.0	5.6%	$3,825.0	-59.0%	$137,264.0
82	Allstate	$39,815.0	3.4%	$2,252.0	-29.4%	$112,249.0
83	World Fuel Services	$39,750.3	18.0%	$127.7	-	$5,676.9
84	Massachusetts Mutual Life Insurance	$39,267.2	17.2%	$397.9	-22.4%	$265,812.6
85	TJX	$38,972.9	8.7%	$3,059.8	17.3%	$14,326.0

FORTUNE SEARCH SIGN IN Subscribe Now

87	Deere	$37,357.7	25.6%	$2,368.4	9.7%	$70,108.0
88	Tech Data	$37,239.0	1.3%	$340.6	192.0%	$12,986.6
89	Enterprise Products Partners	$36,534.2	24.9%	$4,172.4	49.1%	$56,969.8
90	Nike	$36,397.0	6.0%	$1,933.0	-54.4%	$22,536.0
91	Publix Super Markets	$36,395.7	4.5%	$2,381.2	3.9%	$18,982.5
92	General Dynamics	$36,193.0	16.9%	$3,345.0	14.9%	$45,408.0

93	Exelon	$35,985.0	7.3%	$2,010.0	-46.7%	$119,666.0
94	Plains GP Holdings	$34,055.0	29.9%	$334.0	-	$26,830.0
95	3M	$32,765.0	3.5%	$5,349.0	10.1%	$36,500.0
96	AbbVie	$32,753.0	16.1%	$5,687.0	7.1%	$59,352.0
97	CHS	$32,683.3	2.0%	$775.9	983.8%	$16,381.2
98	Capital One Financial	$32,377.0	7.9%	$6,015.0	203.5%	$372,538.0
99	Progressive	$31,979.0	19.2%	$2,615.3	64.3%	$46,575.0
100	Coca-Cola	$31,856.0	-10.0%	$6,434.0	415.5%	$83,216.0

PREVIOUS NEXT

Page 1 of 10 100 Rows

Rankings

40 Under 40 Most Powerful Women

100 Best Companies World's Greatest Leaders

Fortune 500 World's Most Admired Companies

Global 500 See All Rankings

Sections

Automotives The Ledger Health Retail

Careers
Design
Executive Travel
Venture
Finance
Energy & Environment
International
Leadership
Lifestyle
Luxury
Sports
Technology
Commentary

Customer Support

Frequently Asked Questions
Customer Service Portal
Privacy Policy
Terms of Use

Commercial Services

FORTUNE Knowledge Group
FORTUNE Branded Content
Fortune Data Store
Fortune Conferences
Advertising

About Us

About Us
Work at Fortune
Behavioral Advertising Notice
Terms and Conditions

© 2021 Fortune Media IP Limited. All Rights Reserved. Use of this site constitutes acceptance of our Terms of Use and Privacy Policy | CA Notice at Collection and Privacy Notice | Do Not Sell My Personal Information | Ad Choices
FORTUNE is a trademark of Fortune Media IP Limited, registered in the U.S. and other countries. FORTUNE may receive compensation for some links to products and services on this website. Offers may be subject to change without notice.
Quotes delayed at least 15 minutes. Market data provided by Interactive Data. ETF and Mutual Fund data provided by Morningstar, Inc. Dow Jones Terms & Conditions: http://www.djindexes.com/mdsidx/html/tandc/indexestandcs.html.

COEX-
8.179

S&P Index data is the property of Chicago Mercantile Exchange Inc. and its licensors. All rights reserved. Terms & Conditions. Powered and implemented by Interactive Data Managed Solutions.

Fortune 500

Looking For Something? SEARCH

2019 2018 2017 2016 2015 2014 2013 2012 2011 2

Filters

SECTOR

INDUSTRY

HEADQUARTERS CITY

HEADQUARTERS STATE

- GAINED IN RANK
- DROPPED IN RANK
- NEWCOMER TO THE FORTUNE 500
- PROFITABLE
- FOUNDER IS CEO
- FEMALE CEO

- ☐ GROWTH IN JOBS
- ☐ GLOBAL 500
- ☐ BEST COMPANIES
- ☐ WORLD'S MOST ADMIRED COMPANIES
- ☐ CHANGE THE WORLD
- ☐ FASTEST GROWING COMPANIES

		REMOVE ✕	REMOVE ✕	REMOVE ✕	REMOVE ✕	REMOVE ✕
RANK	NAME	REVENUES ($M)	REVENUE PERCENT CHANGE	PROFITS ($M)	PROFITS PERCENT CHANGE	ASSETS ($M)
101	USAA	$31,367.8	4.5%	$2,291.9	-5.4%	$158,506.8
102	Hewlett Packard Enterprise	$30,852.0	6.9%	$1,908.0	454.7%	$55,493.0
103	Abbott Laboratories	$30,578.0	11.6%	$2,368.0	396.4%	$67,173.0
104	Twenty-First Century Fox	$30,400.0	6.7%	$4,464.0	51.2%	$53,831.0
105	Micron Technology	$30,391.0	49.5%	$14,135.0	177.8%	$43,376.0
106	Travelers	$30,282.0	4.8%	$2,523.0	22.7%	$104,233.0
107	Rite Aid	$30,215.4	-8.0%	$943.5	23178.3%	$8,989.3
108	Northrop Grumman	$30,095.0	16.6%	$3,229.0	60.2%	$37,653.0
109	Arrow Electronics	$29,676.8	10.7%	$716.2	78.2%	$17,784.4
110	Philip Morris International	$29,625.0	3.1%	$7,911.0	31.1%	$39,801.0

111	Northwestern Mutual	$29,124.0	-0.7%	$783.0	-23.0%	$272,167.0
112	INTL FCStone	$27,622.7	-6.1%	$55.5	767.2%	$7,824.7
113	PBF Energy	$27,186.1	24.8%	$128.3	-69.1%	$8,005.4
114	Raytheon	$27,058.0	6.7%	$2,909.0	43.7%	$31,864.0
115	Kraft Heinz	$26,259.0	0.1%	$-10,229.0	-193.0%	$103,627.0
116	Mondelez International	$25,938.0	0.2%	$3,381.0	15.7%	$62,729.0
117	U.S. Bancorp	$25,775.0	7.4%	$7,096.0	14.1%	$467,374.0
118	Macy's	$25,739.0	3.6%	$1,108.0	-28.4%	$19,194.0
119	Dollar General	$25,625.0	9.2%	$1,589.5	3.3%	$13,204.0
120	Nucor	$25,067.3	23.8%	$2,360.8	79.0%	$17,920.6
121	Starbucks	$24,719.5	10.4%	$4,518.3	56.6%	$24,156.4
122	DXC Technology	$24,556.0	222.8%	$1,751.0	-	$33,921.0
123	Eli Lilly	$24,555.7	7.4%	$3,232.0	-	$43,908.4
124	Thermo Fisher Scientific	$24,358.0	16.4%	$2,938.0	32.0%	$56,232.0
125	US Foods Holding	$24,175.0	0.1%	$407.0	-8.4%	$9,186.0
126	Duke Energy	$24,116.0	4.0%	$2,666.0	-12.8%	$145,392.0

127	Halliburton	$23,995.0	16.4%	$1,656.0	-	$25,982.0
128	Cummins	$23,771.0	16.4%	$2,141.0	114.3%	$19,062.0
129	Amgen	$23,747.0	3.9%	$8,394.0	324.2%	$66,416.0
130	Paccar	$23,495.7	20.8%	$2,195.1	31.0%	$25,482.4
131	Southern	$23,495.0	2.0%	$2,226.0	164.4%	$116,914.0
132	CenturyLink	$23,443.0	32.8%	$-1,733.0	-224.8%	$70,256.0
133	International Paper	$23,306.0	0.0%	$2,012.0	-6.2%	$33,576.0
134	Union Pacific	$22,832.0	7.5%	$5,966.0	-44.3%	$59,147.0
135	Dollar Tree	$22,823.3	2.6%	$-1,590.8	-192.8%	$13,501.2
136	Penske Automotive Group	$22,785.1	6.5%	$471.0	-23.2%	$10,904.5
137	Qualcomm	$22,732.0	2.0%	$-4,864.0	-297.2%	$32,686.0
138	Bristol-Myers Squibb	$22,561.0	8.6%	$4,920.0	388.6%	$34,986.0
139	Gilead Sciences	$22,127.0	-15.2%	$5,455.0	17.9%	$63,675.0
140	Jabil	$22,095.4	15.9%	$86.3	-33.1%	$12,045.6
141	ManpowerGroup	$21,991.2	4.5%	$556.7	2.1%	$8,519.8
142	Southwest Airlines	$21,965.0	3.8%	$2,465.0	-29.3%	$26,243.0
143	Aflac	$21,758.0	0.4%	$2,920.0	-36.6%	$140,406.0

144	Tesla	$21,461.3	82.5%	$-976.1	-	$29,739.6
145	AutoNation	$21,412.8	-0.6%	$396.0	-8.9%	$10,665.1
146	CBRE Group	$21,340.1	50.2%	$1,063.2	53.8%	$13,456.8
147	Lear	$21,148.5	3.3%	$1,149.8	-12.5%	$11,600.7
148	Whirlpool	$21,037.0	-1.0%	$-183.0	-152.3%	$18,347.0
149	McDonald's	$21,025.2	-7.9%	$5,924.3	14.1%	$32,811.2
150	Broadcom	$20,848.0	18.1%	$12,259.0	624.5%	$50,124.0
151	Marriott International	$20,758.0	-9.3%	$1,907.0	39.0%	$23,696.0
152	Western Digital	$20,647.0	8.1%	$675.0	70.0%	$29,235.0
153	Visa	$20,609.0	12.3%	$10,301.0	53.8%	$69,225.0
154	Lennar	$20,571.6	62.7%	$1,695.8	109.2%	$28,566.2
155	WellCare Health Plans	$20,414.1	20.0%	$439.8	17.7%	$11,764.7
156	Kohl's	$20,229.0	5.9%	$801.0	-6.8%	$12,469.0
157	AECOM	$20,155.5	10.7%	$136.5	-59.8%	$14,681.1
158	Synnex	$20,053.8	17.6%	$300.6	-0.2%	$11,480.4
159	PNC Financial Services	$19,993.0	10.9%	$5,301.0	-0.7%	$382,315.0

160	Danaher	$19,893.0	8.5%	$2,650.9	6.4%	$47,832.5
161	Hartford Financial Services	$19,827.0	3.1%	$1,807.0	-	$62,307.0
162	Altria Group	$19,627.0	0.7%	$6,963.0	-31.9%	$55,638.0
163	Bank of New York Mellon	$19,214.0	15.6%	$4,266.0	4.3%	$362,873.0
164	Fluor	$19,166.6	-1.8%	$224.8	17.5%	$8,913.6
165	Avnet	$19,036.9	-16.8%	$-156.4	-129.8%	$9,596.8
166	Icahn Enterprises	$18,979.0	-12.7%	$1,507.0	-38.0%	$23,396.0
167	Occidental Petroleum	$18,934.0	42.6%	$4,131.0	215.1%	$43,854.0
168	Molina Healthcare	$18,890.0	-5.0%	$707.0	-	$7,154.0
169	Genuine Parts	$18,735.1	14.9%	$810.5	31.4%	$12,683.0
170	Freeport-McMoRan	$18,628.0	13.5%	$2,602.0	43.2%	$42,216.0
171	Kimberly-Clark	$18,486.0	1.2%	$1,410.0	-38.1%	$14,518.0
172	Tenet Healthcare	$18,313.0	-11.2%	$111.0	-	$22,409.0
173	Synchrony Financial	$18,253.0	9.3%	$2,790.0	44.2%	$106,792.0
174	CarMax	$17,976.8	8.1%	$664.1	5.9%	$17,486.3
175	HollyFrontier	$17,714.7	24.3%	$1,098.0	36.3%	$10,994.6

176	Performance Food Group	$17,619.9	5.1%	$198.7	106.3%	$4,000.9
177	Sherwin-Williams	$17,534.5	17.0%	$1,108.7	-37.4%	$19,134.3
178	Emerson Electric	$17,408.0	6.8%	$2,203.0	45.1%	$20,390.0
179	NGL Energy Partners	$17,282.7	32.7%	$-70.9	-151.7%	$6,151.1
180	XPO Logistics	$17,279.0	12.3%	$422.0	24.0%	$12,270.0
181	EOG Resources	$17,275.4	54.1%	$3,419.0	32.4%	$33,934.5
182	Applied Materials	$17,253.0	18.7%	$3,313.0	-3.5%	$17,773.0
183	PG&E	$16,759.0	-2.2%	$-6,851.0	-516.2%	$76,995.0
184	NextEra Energy	$16,727.0	-2.7%	$6,638.0	23.4%	$103,702.0
185	C.H. Robinson Worldwide	$16,631.2	11.8%	$664.5	31.6%	$4,427.4

187	Lincoln National	$16,424.0	15.2%	$1,641.0	-21.1%	$298,147.0
188	DaVita	$16,368.6	2.1%	$159.4	-76.0%	$19,110.3
189	Jones Lang LaSalle	$16,318.4	105.7%	$484.5	90.6%	$10,025.5
190	WestRock	$16,285.1	9.6%	$1,906.1	169.1%	$25,360.5
191	CDW	$16,240.5	6.9%	$643.0	22.9%	$7,167.7
192	American Electric	$16,195.7	5.0%	$1,923.8	0.6%	$68,802.8

	American Electric					
193	Cognizant Technology Solutions	$16,125.0	8.9%	$2,101.0	39.7%	$15,913.0
194	D.R. Horton	$16,068.0	14.0%	$1,460.3	40.6%	$14,114.6
195	Becton Dickinson	$15,983.0	32.2%	$311.0	-71.7%	$53,904.0
196	Nordstrom	$15,860.0	2.5%	$564.0	29.1%	$7,886.0
197	Netflix	$15,794.3	35.1%	$1,211.2	116.7%	$25,974.4
198	Aramark	$15,789.6	8.1%	$567.9	51.9%	$13,720.1
199	Texas Instruments	$15,784.0	5.5%	$5,580.0	51.5%	$17,137.0
200	General Mills	$15,740.4	0.8%	$2,131.0	28.6%	$30,624.0

PREVIOUS NEXT

Page 2 of 10 100 Rows

Rankings

40 Under 40
Most Powerful Women
100 Best Companies
World's Greatest Leaders
Fortune 500
World's Most Admired Companies
Global 500
See All Rankings

Sections

Automotives
The Ledger
Health
Retail

Careers
Venture
International
Sports

Design
Finance
Leadership
Technology

Executive Travel
Energy & Environment
Lifestyle
Commentary

Luxury

Customer Support

Frequently Asked Questions

Customer Service Portal

Privacy Policy

Terms of Use

Commercial Services

FORTUNE Knowledge Group

FORTUNE Branded Content

Fortune Data Store

Fortune Conferences

Advertising

About Us

About Us

Work at Fortune

Behavioral Advertising Notice

Terms and Conditions

© 2021 Fortune Media IP Limited. All Rights Reserved. Use of this site constitutes acceptance of our Terms of Use and Privacy Policy | CA Notice at Collection and Privacy Notice | Do Not Sell My Personal Information | Ad Choices
FORTUNE is a trademark of Fortune Media IP Limited, registered in the U.S. and other countries. FORTUNE may receive compensation for some links to products and services on this website. Offers may be subject to change without notice.
Quotes delayed at least 15 minutes. Market data provided by Interactive Data. ETF and Mutual Fund data provided by Morningstar, Inc. Dow Jones Terms & Conditions: http://www.djindexes.com/mdsidx/html/tandc/indexestandcs.html.

COEX-
8.179

S&P Index data is the property of Chicago Mercantile Exchange Inc. and its licensors. All rights reserved. Terms & Conditions. Powered and implemented by Interactive Data Managed Solutions.

Fortune 500

Looking For Something? SEARCH

2019 2018 2017 2016 2015 2014 2013 2012 2011 2

Filters

SECTOR

INDUSTRY

HEADQUARTERS CITY

HEADQUARTERS STATE

- GAINED IN RANK
- DROPPED IN RANK
- NEWCOMER TO THE FORTUNE 500
- PROFITABLE
- FOUNDER IS CEO
- FEMALE CEO

- ☐ GROWTH IN JOBS
- ☐ GLOBAL 500
- ☐ BEST COMPANIES
- ☐ WORLD'S MOST ADMIRED COMPANIES
- ☐ CHANGE THE WORLD
- ☐ FASTEST GROWING COMPANIES

		REMOVE ✕	REMOVE ✕	REMOVE ✕	REMOVE ✕	REMOVE ✕
RANK	NAME	REVENUES ($M)	REVENUE PERCENT CHANGE	PROFITS ($M)	PROFITS PERCENT CHANGE	ASSETS ($M)
201	Supervalu	$15,679.0	-2.1%	$45.0	-93.1%	$4,387.0
202	Colgate-Palmolive	$15,544.0	0.6%	$2,400.0	18.6%	$12,161.0
203	Goodyear Tire & Rubber	$15,475.0	0.6%	$693.0	100.3%	$16,872.0
204	PayPal Holdings	$15,451.0	18.0%	$2,057.0	14.6%	$43,332.0
205	PPG Industries	$15,374.0	2.7%	$1,341.0	-15.7%	$16,015.0
206	Omnicom Group	$15,290.2	0.1%	$1,326.4	21.9%	$24,617.0
207	Celgene	$15,281.0	17.5%	$4,046.0	37.6%	$35,480.0
208	Jacobs Engineering Group	$14,984.6	49.5%	$163.4	-44.4%	$12,645.8
209	Ross Stores	$14,983.5	6.0%	$1,587.5	16.5%	$6,073.7
210	Marsh & McLennan	$14,950.0	6.6%	$1,650.0	10.6%	$21,578.0

210	Mastercard	$14,950.0	19.6%	$5,859.0	49.7%	$24,860.0
212	Land O'Lakes	$14,936.2	8.7%	$254.5	-19.0%	$9,124.4
213	Waste Management	$14,914.0	3.0%	$1,925.0	-1.2%	$22,650.0
214	Illinois Tool Works	$14,768.0	3.2%	$2,563.0	51.9%	$14,870.0
215	Ecolab	$14,668.2	6.0%	$1,429.1	-5.3%	$20,074.5
216	Booking Holdings	$14,527.0	14.6%	$3,998.0	70.8%	$22,687.0
217	CBS	$14,514.0	-1.3%	$1,960.0	449.0%	$21,859.0
218	Parker-Hannifin	$14,302.4	18.9%	$1,060.8	7.9%	$15,320.1
219	Principal Financial	$14,237.2	1.0%	$1,546.5	-33.1%	$243,036.1
220	DTE Energy	$14,212.0	12.7%	$1,120.0	-1.2%	$36,288.0
221	BlackRock	$14,198.0	13.7%	$4,305.0	-13.4%	$159,573.0
222	United States Steel	$14,178.0	15.7%	$1,115.0	188.1%	$10,982.0
223	Community Health Systems	$14,155.0	-23.4%	$-788.0	-	$15,859.0
224	Kinder Morgan	$14,144.0	3.2%	$1,609.0	779.2%	$78,866.0
225	Qurate Retail	$14,070.0	35.2%	$916.0	-62.5%	$17,841.0
226	Loews	$14,066.0	2.4%	$636.0	-45.4%	$78,316.0

227	Arconic	$14,014.0	8.1%	$642.0	-	$18,693.0
228	Stanley Black & Decker	$13,982.4	9.7%	$605.2	-50.6%	$19,408.0
229	Textron	$13,972.0	-1.6%	$1,222.0	298.0%	$14,264.0
230	Las Vegas Sands	$13,729.0	6.6%	$2,413.0	-14.0%	$22,547.0
231	Estee Lauder	$13,683.0	15.7%	$1,108.0	-11.3%	$12,567.0
232	DISH Network	$13,621.3	-5.4%	$1,575.1	-24.9%	$30,587.0
233	Stryker	$13,601.0	9.3%	$3,553.0	248.3%	$27,229.0
234	Kellogg	$13,547.0	4.8%	$1,336.0	5.3%	$17,780.0
235	Biogen	$13,452.9	9.6%	$4,430.7	74.5%	$25,288.9
236	Alcoa	$13,403.0	15.0%	$227.0	4.6%	$15,938.0
237	Anadarko Petroleum	$13,382.0	12.4%	$615.0	-	$40,376.0
238	Dominion Energy	$13,366.0	6.2%	$2,447.0	-18.4%	$77,914.0
239	ADP	$13,325.8	7.6%	$1,620.8	-6.5%	$37,088.7
240	salesforce.com	$13,282.0	26.7%	$1,110.0	770.7%	$30,737.0
241	L Brands	$13,236.9	4.8%	$643.9	-34.5%	$8,090.2
242	Henry Schein	$13,202.0	5.9%	$535.9	31.9%	$8,500.5
243	Newell Brands	$13,033.1	-11.6%	$-6,917.9	-351.7%	$17,716.4

244	Guardian Life Ins. Co. of America	$13,014.9	4.5%	$464.9	2.1%	$74,053.0
245	BJ's Wholesale Club	$13,007.3	2.0%	$127.3	153.0%	$3,239.3
246	BB&T Corp.	$12,996.0	6.9%	$3,237.0	35.2%	$225,697.0
247	State Street Corp.	$12,973.0	10.2%	$2,599.0	19.4%	$244,626.0
248	Viacom	$12,943.0	-2.4%	$1,719.0	-8.3%	$23,783.0
249	Ameriprise Financial	$12,924.0	7.0%	$2,098.0	41.8%	$137,216.0
250	Core-Mark Holding	$12,903.9	5.6%	$45.5	35.8%	$1,666.1
251	Reinsurance Group of America	$12,875.7	2.9%	$715.8	-60.7%	$64,535.2
252	VF	$12,862.3	3.7%	$658.6	7.1%	$10,311.3
253	Discover Financial Services	$12,848.0	11.3%	$2,742.0	30.6%	$109,553.0
254	Global Partners	$12,672.6	42.1%	$103.9	76.9%	$2,424.3
255	Edison International	$12,657.0	2.7%	$-423.0	-174.9%	$56,715.0
256	Oneok	$12,593.2	3.4%	$1,151.7	197.0%	$18,231.7
257	Murphy USA	$12,524.0	15.4%	$213.6	-12.9%	$2,360.8
258	Bed Bath & Beyond	$12,349.3	1.1%	$424.9	-38.0%	$7,040.8
259	Consolidated Edison	$12,337.0	2.5%	$1,382.0	-9.4%	$53,920.0

260	CSX	$12,250.0	7.4%	$3,309.0	-39.5%	$36,729.0
261	J.C. Penney	$12,019.0	-3.9%	$-255.0	-	$7,721.0
262	LKQ	$11,876.7	20.6%	$480.1	-10.0%	$11,393.4
263	FirstEnergy	$11,864.0	-12.9%	$1,348.0	-	$40,063.0
264	Steel Dynamics	$11,821.8	23.9%	$1,258.4	54.8%	$7,703.6
265	Lithia Motors	$11,821.4	17.2%	$265.7	8.4%	$5,384.0
266	MGM Resorts International	$11,763.1	9.2%	$466.8	-76.2%	$30,210.7
267	Tenneco	$11,763.0	26.8%	$55.0	-73.4%	$13,232.0
268	Nvidia	$11,716.0	20.6%	$4,141.0	35.9%	$13,292.0
269	Sempra Energy	$11,687.0	4.3%	$1,049.0	309.8%	$60,638.0
270	Farmers Insurance Exchange	$11,650.4	-3.5%	$-70.5	-	$17,016.3
271	Ball	$11,635.0	5.9%	$454.0	21.4%	$16,554.0
272	Group 1 Automotive	$11,601.4	4.3%	$157.8	-26.1%	$5,001.1
273	Unum Group	$11,598.5	2.8%	$523.4	-47.4%	$61,875.6
274	Xcel Energy	$11,537.0	1.2%	$1,261.0	9.8%	$45,987.0
275	Reliance Steel & Aluminum	$11,534.5	18.7%	$633.7	3.3%	$8,044.9

276	Huntsman	$11,527.0	8.8%	$337.0	-47.0%	$7,953.0
277	Norfolk Southern	$11,458.0	8.6%	$2,666.0	-50.7%	$36,239.0
278	Laboratory Corp. of America	$11,333.4	8.5%	$883.7	-30.3%	$16,185.3
279	Corning	$11,290.0	11.6%	$1,066.0	-	$27,505.0
280	Expedia Group	$11,223.0	11.6%	$406.0	7.4%	$18,033.0
281	AutoZone	$11,221.1	3.1%	$1,337.5	4.4%	$9,347.0
282	W.W. Grainger	$11,221.0	7.6%	$782.0	33.5%	$5,873.0
283	Quanta Services	$11,171.4	18.0%	$293.3	-6.9%	$7,075.8
284	Crown Holdings	$11,151.0	28.2%	$439.0	35.9%	$15,262.0
285	Office Depot	$11,130.0	3.5%	$104.0	-42.5%	$6,166.0

FORTUNE SEARCH SIGN IN Subscribe Now

287	Lam Research	$11,077.0	38.2%	$2,380.7	40.2%	$12,479.5
288	Entergy	$11,009.5	-0.6%	$848.7	106.2%	$48,275.1
289	Charles Schwab	$10,989.0	22.6%	$3,507.0	49.0%	$296,482.0
290	L3 Technologies	$10,841.0	-1.5%	$1,005.0	48.4%	$13,518.0
291	NRG Energy	$10,797.0	-4.2%	$268.0	-	$10,628.0
292	Live Nation	$10,787.8	4.4%	$60.2	-	$8,496.9

	Live Nation					
293	Universal Health Services	$10,772.3	-4.5%	$779.7	3.6%	$11,265.5
294	Molson Coors Brewing	$10,769.6	-2.1%	$1,116.5	-28.7%	$30,109.8
295	eBay	$10,746.0	12.3%	$2,530.0	-	$22,819.0
296	AES	$10,736.0	-22.5%	$1,203.0	-	$32,521.0
297	Devon Energy	$10,734.0	-23.0%	$3,064.0	241.2%	$19,566.0
298	Pacific Life	$10,699.0	12.5%	$913.0	-33.1%	$157,699.0
299	CenterPoint Energy	$10,589.0	10.1%	$368.0	-79.5%	$27,009.0
300	Discovery	$10,553.0	53.5%	$594.0	-	$32,550.0

PREVIOUS NEXT

Page 3 of 10 100 Rows

Rankings

40 Under 40
Most Powerful Women
100 Best Companies
World's Greatest Leaders
Fortune 500
World's Most Admired Companies
Global 500
See All Rankings

Sections

Automotives
The Ledger
Health
Retail

Careers
Venture
International
Sports

Design
Finance
Leadership
Technology

Executive Travel
Energy & Environment
Lifestyle
Commentary

Luxury

Customer Support

Frequently Asked Questions

Customer Service Portal

Privacy Policy

Terms of Use

Commercial Services

FORTUNE Knowledge Group

FORTUNE Branded Content

Fortune Data Store

Fortune Conferences

Advertising

About Us

About Us

Work at Fortune

Behavioral Advertising Notice

Terms and Conditions

© 2021 Fortune Media IP Limited. All Rights Reserved. Use of this site constitutes acceptance of our Terms of Use and Privacy Policy | CA Notice at Collection and Privacy Notice | Do Not Sell My Personal Information | Ad Choices
FORTUNE is a trademark of Fortune Media IP Limited, registered in the U.S. and other countries. FORTUNE may receive compensation for some links to products and services on this website. Offers may be subject to change without notice.
Quotes delayed at least 15 minutes. Market data provided by Interactive Data. ETF and Mutual Fund data provided by Morningstar, Inc. Dow Jones Terms & Conditions: http://www.djindexes.com/mdsidx/html/tandc/indexestandcs.html.

COEX-
8.179

S&P Index data is the property of Chicago Mercantile Exchange Inc. and its licensors. All rights reserved. Terms & Conditions. Powered and implemented by Interactive Data Managed Solutions.

Fortune 500

Looking For Something? SEARCH

2019 2018 2017 2016 2015 2014 2013 2012 2011 2

Filters

SECTOR

INDUSTRY

HEADQUARTERS CITY

HEADQUARTERS STATE

- GAINED IN RANK
- DROPPED IN RANK
- NEWCOMER TO THE FORTUNE 500
- PROFITABLE
- FOUNDER IS CEO
- FEMALE CEO

- ☐ GROWTH IN JOBS
- ☐ GLOBAL 500
- ☐ BEST COMPANIES
- ☐ WORLD'S MOST ADMIRED COMPANIES
- ☐ CHANGE THE WORLD
- ☐ FASTEST GROWING COMPANIES

RANK	NAME	REMOVE ✕ REVENUES ($M)	REMOVE ✕ REVENUE PERCENT CHANGE	REMOVE ✕ PROFITS ($M)	REMOVE ✕ PROFITS PERCENT CHANGE	REMOVE ✕ ASSETS ($M)
301	BorgWarner	$10,529.6	7.5%	$930.7	111.6%	$10,095.3
302	Targa Resources	$10,484.0	18.9%	$1.6	-97.0%	$16,938.2
303	Ally Financial	$10,466.0	6.1%	$1,263.0	36.0%	$178,869.0
304	SunTrust Banks	$10,431.0	7.1%	$2,775.0	22.1%	$215,543.0
305	IQVIA Holdings	$10,412.0	6.9%	$259.0	-80.2%	$22,549.0
306	American Family Insurance Group	$10,336.2	8.3%	$295.3	89.7%	$27,502.5
307	Delek US Holdings	$10,265.6	39.7%	$340.1	17.8%	$5,760.6
308	Navistar International	$10,250.0	19.6%	$340.0	1033.3%	$7,230.0
309	Chesapeake Energy	$10,231.0	7.7%	$873.0	-8.0%	$10,947.0
310	United Natural Foods	$10,226.7	10.3%	$165.7	27.3%	$2,964.5

311	Leidos Holdings	$10,194.0	0.2%	$581.0	58.7%	$8,770.0
312	PulteGroup	$10,188.3	18.8%	$1,022.0	128.5%	$10,173.0
313	Eastman Chemical	$10,151.0	6.3%	$1,080.0	-22.0%	$15,995.0
314	Republic Services	$10,040.9	-0.0%	$1,036.9	-18.9%	$21,617.0
315	Mohawk Industries	$9,983.6	5.2%	$861.7	-11.3%	$13,099.1
316	Sonic Automotive	$9,951.6	0.9%	$51.7	-44.5%	$3,796.8
317	Owens & Minor	$9,838.7	5.6%	$-437.0	-700.3%	$3,773.8
318	Xerox	$9,830.0	-4.2%	$361.0	85.1%	$14,874.0
319	Boston Scientific	$9,823.0	8.6%	$1,671.0	1506.7%	$20,999.0
320	DCP Midstream	$9,822.0	16.1%	$298.0	30.1%	$14,266.0
321	Autoliv	$9,801.1	-5.6%	$190.4	-55.4%	$6,721.6
322	Interpublic Group	$9,714.4	23.2%	$618.9	6.9%	$15,620.3
323	Public Service Enterprise Group	$9,696.0	6.7%	$1,438.0	-8.6%	$45,326.0
324	PVH	$9,656.8	8.3%	$746.4	38.8%	$11,863.7
325	Mosaic	$9,587.3	29.4%	$470.0	-	$20,119.2
326	Advance Auto Parts	$9,580.6	2.2%	$423.8	-10.9%	$9,040.6

327	Altice USA	$9,566.6	2.6%	$18.8	-98.8%	$33,613.8
328	Hormel Foods	$9,545.7	4.1%	$1,012.1	19.5%	$8,142.3
329	O'Reilly Automotive	$9,536.4	6.2%	$1,324.5	16.8%	$7,980.8
330	Calpine	$9,512.0	8.7%	$10.0	-	$16,062.0
331	Hertz Global Holdings	$9,504.0	8.0%	$-225.0	-168.8%	$21,382.0
332	First Data	$9,498.0	-21.2%	$1,005.0	-31.4%	$38,327.0
333	Pioneer Natural Resources	$9,415.0	72.6%	$978.0	17.4%	$17,903.0
334	Coty	$9,398.0	22.8%	$-168.8	-	$22,630.2
335	AGCO	$9,352.0	12.6%	$285.5	53.2%	$7,626.4
336	Mutual of Omaha Insurance	$9,347.2	7.0%	$277.3	-67.9%	$43,913.4
337	Vistra Energy	$9,144.0	68.4%	$-54.0	-	$26,024.0
338	Avis Budget Group	$9,124.0	3.1%	$165.0	-54.3%	$19,149.0
339	Adobe	$9,030.0	23.7%	$2,590.8	52.9%	$18,768.7
340	Peter Kiewit Sons'	$9,025.0	4.0%	$468.0	26.1%	$4,760.0
341	News Corp.	$9,024.0	10.9%	$-1,514.0	-	$16,346.0
342	Brighthouse Financial	$8,965.0	-	$865.0	-	$206,294.0
343	Voya Financial	$8,934.0	-7.5%	$875.0	-	$154,682.0

344	Air Products & Chemicals	$8,930.2	5.8%	$1,497.8	-50.1%	$19,178.3
345	Hilton Worldwide Holdings	$8,906.0	-2.6%	$764.0	-39.3%	$13,995.0
346	GameStop	$8,850.7	-4.1%	$-673.0	-2039.5%	$4,044.3
347	Veritiv	$8,696.2	4.0%	$-15.7	-	$2,529.7
348	Williams	$8,686.0	8.2%	$-155.0	-107.1%	$45,302.0
349	Campbell Soup	$8,685.0	10.1%	$261.0	-70.6%	$14,529.0
350	Rockwell Collins	$8,665.0	27.0%	$1,032.0	46.4%	$19,026.0
351	Thrivent Financial for Lutherans	$8,635.2	1.3%	$1,233.9	121.0%	$94,482.9
352	Westlake Chemical	$8,635.0	7.4%	$996.0	-23.6%	$11,602.0
353	Univar	$8,632.5	4.6%	$172.3	43.8%	$5,272.4
354	J.B. Hunt Transport Services	$8,614.9	19.8%	$489.6	-28.7%	$5,091.6
355	Frontier Communications	$8,611.0	-5.7%	$-643.0	-	$23,659.0
356	Jones Financial (Edward Jones)	$8,594.0	13.1%	$990.0	13.5%	$15,815.0
357	National Oilwell Varco	$8,453.0	15.7%	$-31.0	-	$19,796.0
358	Eversource Energy	$8,448.2	9.0%	$1,033.0	4.6%	$38,241.3
359	Dick's Sporting Goods	$8,436.6	-1.8%	$319.9	-1.1%	$4,187.1

360	Genworth Financial	$8,430.0	1.6%	$119.0	-85.4%	$100,923.0
361	Fidelity National Information Services	$8,423.0	-7.7%	$846.0	-35.9%	$23,770.0
362	Yum China Holdings	$8,415.0	17.8%	$708.0	75.7%	$4,610.0
363	Ryder System	$8,409.2	14.7%	$273.3	-65.4%	$13,051.1
364	Anixter International	$8,400.2	6.0%	$156.3	43.4%	$4,653.1
365	Caesars Entertainment	$8,391.0	72.9%	$303.0	-	$25,775.0
366	Masco	$8,359.0	9.4%	$734.0	37.7%	$5,393.0
367	Thor Industries	$8,328.9	14.9%	$430.2	14.9%	$2,778.7
368	Alaska Air Group	$8,264.0	4.2%	$437.0	-57.7%	$10,912.0
369	Amphenol	$8,202.0	17.0%	$1,205.0	85.2%	$10,044.9
370	WESCO International	$8,176.6	6.5%	$227.3	39.1%	$4,605.0
371	Huntington Ingalls Industries	$8,176.0	9.9%	$836.0	74.5%	$6,383.0
372	Jefferies Financial Group	$8,151.8	-34.3%	$1,026.8	497.9%	$47,131.1
373	Dana	$8,143.0	13.0%	$427.0	284.7%	$5,918.0
374	Expeditors Intl. of Washington	$8,138.4	17.6%	$618.2	26.3%	$3,314.6
375	EMCOR Group	$8,130.6	5.8%	$283.5	24.8%	$4,088.8

376	Darden Restaurants	$8,080.1	12.7%	$596.0	24.4%	$5,469.6
377	SpartanNash	$8,064.6	-0.8%	$33.6	-	$1,971.9
378	Assurant	$8,057.6	25.6%	$251.0	-51.7%	$41,089.3
379	United Rentals	$8,047.0	21.2%	$1,096.0	-18.6%	$18,133.0
380	Liberty Media	$8,040.0	5.9%	$531.0	-60.8%	$40,828.0
381	Erie Insurance Group	$8,030.7	6.6%	$686.3	-20.0%	$21,178.2
382	Auto-Owners Insurance	$7,999.3	5.2%	$754.5	16.8%	$24,476.4
383	Cheniere Energy	$7,987.0	42.6%	$471.0	-	$31,987.0
384	Fifth Third Bancorp	$7,973.0	3.4%	$2,193.0	-0.0%	$146,069.0
385	Foot Locker	$7,939.0	2.0%	$541.0	90.5%	$3,820.0

387	Zimmer Biomet Holdings	$7,932.9	1.4%	$-379.2	-120.9%	$24,126.8
388	Tractor Supply	$7,911.0	9.0%	$532.4	26.0%	$3,085.3
389	Berry Global Group	$7,869.0	10.9%	$496.0	45.9%	$9,131.0
390	Alliance Data Systems	$7,791.2	0.9%	$963.1	22.1%	$30,387.7
391	Hershey	$7,791.1	3.7%	$1,177.6	50.4%	$7,703.0
392	PPL	$7,785.0	4.5%	$1,827.0	62.0%	$43,396.0

393	Dean Foods	$7,755.3	-0.5%	$-326.9	-630.8%	$2,118.5
394	Builders FirstSource	$7,724.8	9.8%	$205.2	429.1%	$2,932.3
395	Oshkosh	$7,705.5	12.8%	$471.9	65.2%	$5,294.2
396	EnLink Midstream	$7,699.0	34.1%	$-13.2	-106.2%	$10,694.1
397	W.R. Berkley	$7,691.7	0.1%	$640.7	16.7%	$24,896.0
398	WEC Energy Group	$7,679.5	0.4%	$1,059.3	-12.0%	$33,475.8
399	JetBlue Airways	$7,658.0	9.2%	$188.0	-83.6%	$10,426.0
400	UGI	$7,651.2	25.0%	$718.7	64.6%	$11,980.9

PREVIOUS NEXT

Page 4 of 10 100 Rows

Rankings

40 Under 40
Most Powerful Women
100 Best Companies
World's Greatest Leaders
Fortune 500
World's Most Admired Companies
Global 500
See All Rankings

Sections

Automotives
The Ledger
Health
Retail

Careers
Design
Executive Travel
Venture
Finance
Energy & Environment
International
Leadership
Lifestyle
Luxury
Sports
Technology
Commentary

Customer Support

Frequently Asked Questions
Customer Service Portal
Privacy Policy
Terms of Use

Commercial Services

FORTUNE Knowledge Group
FORTUNE Branded Content
Fortune Data Store
Fortune Conferences
Advertising

About Us

About Us
Work at Fortune
Behavioral Advertising Notice
Terms and Conditions

© 2021 Fortune Media IP Limited. All Rights Reserved. Use of this site constitutes acceptance of our Terms of Use and Privacy Policy | CA Notice at Collection and Privacy Notice | Do Not Sell My Personal Information | Ad Choices
FORTUNE is a trademark of Fortune Media IP Limited, registered in the U.S. and other countries. FORTUNE may receive compensation for some links to products and services on this website. Offers may be subject to change without notice.
Quotes delayed at least 15 minutes. Market data provided by Interactive Data. ETF and Mutual Fund data provided by Morningstar, Inc. Dow Jones Terms & Conditions: http://www.djindexes.com/mdsidx/html/tandc/indexestandcs.html.

COEX-
8.179

S&P Index data is the property of Chicago Mercantile Exchange Inc. and its licensors. All rights reserved. Terms & Conditions. Powered and implemented by Interactive Data Managed Solutions.

Fortune 500

Looking For Something? SEARCH

2019 2018 2017 2016 2015 2014 2013 2012 2011 2

Filters

SECTOR

INDUSTRY

HEADQUARTERS CITY

HEADQUARTERS STATE

- GAINED IN RANK
- DROPPED IN RANK
- NEWCOMER TO THE FORTUNE 500
- PROFITABLE
- FOUNDER IS CEO
- FEMALE CEO

- ☐ GROWTH IN JOBS
- ☐ GLOBAL 500
- ☐ BEST COMPANIES
- ☐ WORLD'S MOST ADMIRED COMPANIES
- ☐ CHANGE THE WORLD
- ☐ FASTEST GROWING COMPANIES

		REMOVE ✕	REMOVE ✕	REMOVE ✕	REMOVE ✕	REMOVE ✕
RANK	NAME	REVENUES ($M)	REVENUE PERCENT CHANGE	PROFITS ($M)	PROFITS PERCENT CHANGE	ASSETS ($M)
401	A-Mark Precious Metals	$7,606.2	8.8%	$-3.4	-147.9%	$743.0
402	Fidelity National Financial	$7,594.0	-22.3%	$628.0	-18.5%	$9,301.0
403	Constellation Brands	$7,585.0	3.5%	$2,318.9	51.1%	$20,538.7
404	Quest Diagnostics	$7,531.0	-2.3%	$736.0	-4.7%	$11,003.0
405	Activision Blizzard	$7,500.0	6.9%	$1,813.0	564.1%	$17,835.0
406	Weyerhaeuser	$7,476.0	3.9%	$748.0	28.5%	$17,249.0
407	Raymond James Financial	$7,475.8	14.6%	$856.7	34.7%	$37,412.9
408	Casey's General Stores	$7,472.1	12.5%	$317.9	79.1%	$3,469.9
409	Keurig Dr Pepper	$7,442.0	11.2%	$586.0	-45.5%	$48,918.0
410	American Tower	$7,440.1	11.6%	$1,236.4	-0.2%	$33,010.4

411	Apache	$7,424.0	15.6%	$40.0	-96.9%	$21,582.0
412	Dover	$7,395.8	-5.6%	$570.3	-29.7%	$8,365.8
413	KeyCorp	$7,393.0	7.6%	$1,866.0	44.0%	$139,613.0
414	J.M. Smucker	$7,357.1	-0.5%	$1,338.6	126.0%	$15,301.2
415	Citizens Financial Group	$7,354.0	13.9%	$1,721.0	4.2%	$160,518.0
416	Motorola Solutions	$7,343.0	15.1%	$966.0	-	$9,409.0
417	Magellan Health	$7,314.2	25.3%	$24.2	-78.1%	$2,979.1
418	American Axle & Manufacturing	$7,270.4	16.0%	$-57.5	-117.1%	$7,510.7
419	Newmont Goldcorp	$7,253.0	-1.3%	$341.0	-	$20,715.0
420	Spirit AeroSystems Holdings	$7,222.0	3.4%	$617.0	73.9%	$5,685.9
421	Western & Southern Financial Group	$7,205.0	23.5%	$495.0	59.4%	$50,635.5
422	Fortive	$7,203.2	8.2%	$2,913.8	179.0%	$12,905.6
423	Graybar Electric	$7,202.5	8.6%	$143.3	100.1%	$2,491.2
424	NVR	$7,189.7	13.7%	$797.2	48.3%	$3,165.9
425	Avery Dennison	$7,159.0	8.2%	$467.4	65.9%	$5,177.5
426	Celanese	$7,155.0	16.5%	$1,207.0	43.2%	$9,313.0

427	American Financial Group	$7,150.0	4.2%	$530.0	11.6%	$63,456.0
428	Toll Brothers	$7,143.3	22.8%	$748.2	39.7%	$10,244.6
429	Sanmina	$7,110.1	3.5%	$-95.5	-168.8%	$4,085.1
430	Insight Enterprises	$7,080.1	5.6%	$163.7	80.5%	$2,775.9
431	Owens Corning	$7,057.0	10.5%	$545.0	88.6%	$9,771.0
432	Packaging Corp. of America	$7,014.6	8.8%	$738.0	10.4%	$6,569.7
433	TravelCenters of America	$6,973.6	15.2%	$-120.6	-1401.6%	$1,442.1
434	Olin	$6,946.1	10.8%	$327.9	-40.3%	$8,997.4
435	Arthur J. Gallagher	$6,934.0	12.6%	$633.5	36.8%	$16,334.0
436	MasTec	$6,909.4	4.6%	$259.7	-25.2%	$4,440.0
437	Alleghany	$6,887.2	7.2%	$39.5	-56.1%	$25,344.9
438	Owens-Illinois	$6,877.0	0.1%	$257.0	42.8%	$9,699.0
439	Asbury Automotive Group	$6,874.4	6.5%	$168.0	20.8%	$2,695.4
440	CMS Energy	$6,873.0	4.4%	$657.0	42.8%	$24,529.0
441	Markel	$6,841.3	12.9%	$-128.2	-132.4%	$33,306.3
442	Blackstone Group	$6,833.3	-4.0%	$1,541.8	4.8%	$28,924.7
443	AK Steel Holding	$6,818.2	12.1%	$186.0	2900.0%	$4,515.7

444	Hanesbrands	$6,804.0	5.0%	$553.1	793.6%	$7,256.0
445	R.R. Donnelley & Sons	$6,800.2	-2.0%	$-11.0	-	$3,640.8
446	Wayfair	$6,779.2	43.6%	$-504.1	-	$1,890.9
447	Regions Financial	$6,762.0	11.0%	$1,759.0	39.3%	$125,688.0
448	Wynn Resorts	$6,717.7	6.5%	$572.4	-23.4%	$13,216.3
449	Ulta Beauty	$6,716.6	14.1%	$658.6	18.6%	$3,191.2
450	Regeneron Pharmaceuticals	$6,710.8	14.3%	$2,444.4	104.0%	$11,734.5
451	Burlington Stores	$6,668.5	9.1%	$414.7	7.8%	$3,079.2
452	Rockwell Automation	$6,666.0	5.6%	$535.5	-35.1%	$6,262.0
453	Northern Trust	$6,658.9	16.5%	$1,556.4	29.8%	$132,212.5
454	Chemours	$6,638.0	7.4%	$995.0	33.4%	$7,362.0
455	Seaboard	$6,583.0	13.3%	$-17.0	-106.9%	$5,307.0
456	Marathon Oil	$6,582.0	27.7%	$1,096.0	-	$21,321.0
457	Ascena Retail Group	$6,578.3	-1.1%	$-39.7	-	$3,570.5
458	Dillard's	$6,503.3	1.3%	$170.3	-23.1%	$3,431.4
459	Cintas	$6,487.4	19.5%	$842.6	75.3%	$6,958.2

460	Advanced Micro Devices	$6,475.0	21.5%	$337.0	683.7%	$4,556.0
461	Hess	$6,466.0	19.6%	$-282.0	-	$21,433.0
462	M&T Bank Corp.	$6,454.7	7.2%	$1,918.1	36.2%	$120,097.4
463	ABM Industries	$6,442.2	18.1%	$97.8	2473.7%	$3,627.5
464	Beacon Roofing Supply	$6,418.3	46.6%	$98.6	-2.2%	$6,508.7
465	NCR	$6,405.0	-1.7%	$-88.0	-137.9%	$7,761.0
466	iHeartMedia	$6,325.8	2.6%	$-201.9	-	$12,269.5
467	Franklin Resources	$6,319.1	-1.1%	$764.4	-54.9%	$14,383.5
468	Ameren	$6,291.0	1.8%	$815.0	55.8%	$27,215.0
469	Intercontinental Exchange	$6,276.0	7.6%	$1,988.0	-20.9%	$92,791.0
470	S&P Global	$6,258.0	3.2%	$1,958.0	30.9%	$9,458.0
471	Post Holdings	$6,257.2	19.7%	$467.3	867.5%	$13,057.5
472	Analog Devices	$6,200.9	21.4%	$1,495.4	105.6%	$20,449.8
473	Ralph Lauren	$6,182.3	-7.1%	$162.8	-	$6,143.3
474	L3Harris Technologies	$6,182.0	-10.9%	$718.0	29.8%	$9,839.0
475	Booz Allen Hamilton	$6,171.9	6.3%	$305.1	20.8%	$3,603.4

476	Polaris Industries	$6,166.0	12.0%	$335.3	94.4%	$4,124.9
477	Clorox	$6,124.0	2.5%	$823.0	17.4%	$5,060.0
478	Realogy Holdings	$6,079.0	-0.6%	$137.0	-68.2%	$7,290.0
479	HD Supply Holdings	$6,047.0	-7.5%	$394.0	-59.4%	$4,233.0
480	Graphic Packaging Holding	$6,023.0	36.8%	$221.1	-26.3%	$7,059.2
481	Old Republic International	$6,021.8	-3.9%	$370.5	-33.9%	$19,327.1
482	Intuit	$5,964.0	15.2%	$1,211.0	24.7%	$5,178.0
483	NetApp	$5,911.0	7.1%	$76.0	-85.1%	$9,865.0
484	Tapestry	$5,880.0	31.0%	$397.5	-32.7%	$6,678.3
485	ON Semiconductor	$5,878.3	6.0%	$627.4	-22.6%	$7,587.6

FORTUNE SEARCH SIGN IN Subscribe Now

487	Zoetis	$5,825.0	9.8%	$1,428.0	65.3%	$10,777.0
488	Fiserv	$5,823.0	2.2%	$1,187.0	-4.7%	$11,262.0
489	TreeHouse Foods	$5,812.1	-7.8%	$-61.4	-	$5,599.3
490	Robert Half International	$5,800.3	10.1%	$434.3	49.5%	$1,903.1
491	First American Financial	$5,747.8	-0.4%	$474.5	12.2%	$10,630.6
492	Harley-Davidson	$5,716.9	1.2%	$531.5	1.9%	$10,665.7

493	Windstream Holdings	$5,713.1	-2.4%	$-723.0	-	$10,257.9
494	Yum Brands	$5,688.0	-3.2%	$1,542.0	15.1%	$4,130.0
495	Williams-Sonoma	$5,671.6	7.2%	$333.7	28.6%	$2,812.8
496	Simon Property Group	$5,657.9	2.2%	$2,440.1	25.3%	$30,686.2
497	Navient	$5,610.0	8.3%	$395.0	35.3%	$104,176.0
498	Western Union	$5,589.9	1.2%	$851.9	-	$8,996.8
499	Peabody Energy	$5,581.8	0.1%	$646.9	-	$7,423.7
500	Levi Strauss	$5,575.4	13.7%	$283.1	0.6%	$3,542.7

PREVIOUS NEXT

Page 5 of 10 100 Rows

Rankings

40 Under 40
Most Powerful Women
100 Best Companies
World's Greatest Leaders
Fortune 500
World's Most Admired Companies
Global 500
See All Rankings

Sections

Automotives
The Ledger
Health
Retail

Careers
Venture
International
Sports
Design
Finance
Leadership
Technology
Executive Travel
Energy & Environment
Lifestyle
Commentary
Luxury

Customer Support

Frequently Asked Questions
Customer Service Portal
Privacy Policy
Terms of Use

Commercial Services

FORTUNE Knowledge Group
FORTUNE Branded Content
Fortune Data Store
Fortune Conferences
Advertising

About Us

About Us
Work at Fortune
Behavioral Advertising Notice
Terms and Conditions

© 2021 Fortune Media IP Limited. All Rights Reserved. Use of this site constitutes acceptance of our Terms of Use and Privacy Policy | CA Notice at Collection and Privacy Notice | Do Not Sell My Personal Information | Ad Choices
FORTUNE is a trademark of Fortune Media IP Limited, registered in the U.S. and other countries. FORTUNE may receive compensation for some links to products and services on this website. Offers may be subject to change without notice.
Quotes delayed at least 15 minutes. Market data provided by Interactive Data. ETF and Mutual Fund data provided by Morningstar, Inc. Dow Jones Terms & Conditions: http://www.djindexes.com/mdsidx/html/tandc/indexestandcs.html.

COEX-
8.179

S&P Index data is the property of Chicago Mercantile Exchange Inc. and its licensors. All rights reserved. Terms & Conditions. Powered and implemented by Interactive Data Managed Solutions.

COEX-8.180

How Pandora turns personalization into $1 billion in ad revenue (VB Live)

VB venturebeat.com/2018/10/22/how-pandora-turns-personalization-into-1-billion-in-ad-revenue-vb-live/

VB Staff October 22, 2018

VB Live

Image Credit: Shutterstock

Personalized web and mobile ads that reflect your customers' tastes, values, and preferences is the key to keeping them clicking, but it's hard to pull off. To learn how companies like Pandora flawlessly serve up customized advertising that always clicks, don't miss this VB Live event!

Register here for free.

Personalization is the core of Pandora, says David Hardtke, director of advertising science at internet radio station Pandora, which has more than $1 billion in digital advertising revenue.

His team focuses on optimizing the Pandora platform on behalf of their advertisers, using music listening preferences and music listening data to get insights into who their users are. The goal is determining when and where to play ads, using intelligent ad search technology powered by AI and machine learning, as well as improving measurement on whether or not an ad was heard and whether it was effective for the advertiser.

In Pandora, users start a station, seeded by an artist or a song or a genre. As Pandora serves up related music, the listener provides feedback in the form of thumbs up or thumbs down for the songs they like and don't like. From there, Pandora builds a personalized station based on that user's feedback, as well as the feedback from other listeners on that feed.

And on the advertising side, it turns out that the music you listen to is one of the more powerful signals into getting an insight into who a customer is, Hardtke says.

"The average Pandora listener listens 24 hours a month, so we have this wealth of personal data: when you listen, what devices you listen on, and what you like to listen to," he explains.

Pandora's raison d'être is building algorithms that personalize stations for their users, and their data science team is focused on ensuring that the music is right for each individual listener — and they then can apply that to their advertising. They can build custom targeting segments based on listening behavior and other behaviors.

For instance, Pandora can figure out when you are listening with your kids and which kid you are listening with. They can identify when you're in the car with your kids, and when you drop them off at school. They can figure out when you're working out, and surface not just workout-appropriate music, but also workout-appropriate ads, and then build tests with advertisers.

"The powerful thing is that we find these patterns of listener behavior and interactions identify really specific, really niche groups of people," Hardtke says. "We're only just now starting to exploit that and help our advertisers use that data in their campaigns. We see the immense power to hitting the right audience with their message."

Hardke warns that it can be overdone, completely skewing your data and serving up advertisements that are not just incompatible, but insulting to your users, such as when you can engage in what's called overfitting, which is over-personalization based on a limited set of data. An example of overfitting would be during the American election, in which the Rasmussen poll consistently showed Trump having a larger than expected vote share among black Americans than any other poll.

He also points out that there's a very fine line between hyper-personalization and trying to have a broader reach. When you're trying to narrowly target the people you think are in the market, you're missing out on people who have unanticipated future needs — but hyper-personalization still unlocks a world of opportunity for brands that want to keep themselves

top-of-mind, such as the listener realizing their insurance is about to inspire. And who could turn down the possibilities of personalization that follow your customer throughout their journey, from mobile to web and all during the day?

To learn more about how Pandora transforms rich user data into advertising dollars, how to unlock the potential of hyper-personalization, and how to avoid the biggest mistakes, don't miss this VB Live event!

Don't miss out!

Register here for free.

Attend this webinar and learn:

- How to offer your customers content that connects to their lifestyle and tastes
- The intersection between art and science in the new world of hyper-personalized advertising
- How to create customized content that connects without creeping out customers
- Best practices companies like Pandora and Trulia use to create authenticity and bring in more revenue

Speakers:

- **David Hardtke**, Director of Advertising Science, Pandora
- **Deep Varma**, VP of Engineering Trulia
- **Moira Dorsey,** Founder, Dorsey Experience
- **Rachael Brownell**, Moderator, VentureBeat

Sponsored by Cvent

COEX-8.181

The Only Tool You Need to Make 'Big Data' Actionable

sxmmedia.com/insights/make-big-data-actionable

For marketers, Big Data is a sink-or-swim kind of game. It can mean the difference between a successful or unsuccessful ad campaign, and single-handedly identify who a brand's target consumers should be.

Yet no matter how fast we chase down Big Data, we continue to find ourselves in a world with ***more data*** and ***less insights***. Right now, many tech companies and brands believe that executing against data-driven insights is either a huge competitive advantage or their #1 concern. But for advertisers and marketers especially, knowing how to extract and apply actionable insights to a media plan is critical to making an impression with the right consumers.

The best way to approach Big Data is with an audience-first mindset. Start by knowing exactly who matters most to your business. Then, you'll want to ensure that whatever data set you're using to learn about this audience has enough depth and breadth to provide insights that aren't just accurate, but also meaningful to your business.

Pandora's Audience Explorer Puts the Audience First

Powering an audience-first marketing strategy with quality data was exactly our purpose in launching Pandora's new Audience Explorer tool, which gives advertisers customizable and real-time insights on over 2,300 targeting segments.

Pandora's data is now more accessible and actionable for our partners--a direction that we see the industry at large heading towards. It's all about taking Big Data and making it work for you and your brand. With Audience Explorer, marketers can hone in on the exact characteristics they're most interested in and even make comparisons between different segments. With just a few clicks, it can provide insights ranging from whether an audience prefers angry or sad lyrics, what day of the week they listen to Pandora most, and if they lean more to the left or right politically.

Helping Make Big Data Actionable

This is one of the first times we have invited our brand partners to dive into the treasure trove of data we have on listening trends and audience behavior. In several cases, this has already lead to more informed and strategic campaigns.

For example, a local food and beverage company recently used Audience Explorer to discover that their target audience skews multicultural. This allowed the brand to think about new ways of connecting with their customers with across culturally relevant touch points.

Interested in learning more? Your Pandora sales representative is ready to provide you with an Audience Explorer report on any targeting segments you already use on Pandora. And if you're new to Pandora advertising, all you need to do is fill out this form and we'll get in touch to see how our data insights can help power an audience-first marketing plan for your brand.

COEX-8.182

HELP CENTER

Targeting on Ad Studio

Targeting options

Reach the right audience with Spotify Ad Studio's effective targeting options. It starts with demographics: age, gender, location, and platform. Our advanced targeting options include interests, real-time contexts, genre targeting, and fan base targeting for music-related campaigns. You can use one advanced targeting option per ad set.

Age, gender, location, and platform Connect with your target audiences across platforms with Spotify's first-party age, gender, and location data.

Interest Reach highly relevant audiences based on their podcast, playlist, and platform preferences.

Real-time context Reach listeners as they soundtrack specific moments throughout their day.

Genre Deliver your message immediately after a user has listened to a specific genre.

Fan base Target known fans of an artist you're promoting or fans of other artists (available when promoting an artist or music event).

Location targeting

Our location targeting product leverages IP address to determine which users are eligible for targeting, based on the IP address(es) provided in

an ad request. You can target your ad sets by the following locations depending on your account country:

- United States: Target by country, state, city, postal code, or DMA (A Designated Market Area region is a group of cities that form a broader metropolitan area. For example, the Los Angeles DMA includes the city of Los Angeles as well as the cities and counties that surround it.)
- Canada: Target by country, city, postal code
- New Zealand: Target by country, region, city
- Spain: Target by country, region, city, postal code
- France: Target by country, city, postal code
- Denmark: Target by country, city, postal code
- Netherlands: Target by country, city, postal code
- Singapore: Target by country, city
- United Kingdom: Target by country, city, postal code
- Australia: Target by country, state, city, postal code
- Mexico: Target by country, region, city, postal code
- Germany: Target bycountry, city, postal code
- Italy: Target by country, city, postal code
- Finland: Target by country, city, postal code
- Norway: Target by country, city, postal code
- Sweden: Target by country, city, postal code

Advertisers outside of Australia can't currently

target the country of Australia or its regions.

Interest targeting –

Interest targeting allows you to reach relevant audiences based on the activities and topics they're passionate about. Interest categories are informed by users' recent streaming behavior, including their podcast, playlist and platform preferences. You can select multiple interest categories to expand your potential audience.

Available interest categories:

- **Books:** People who listen to books & literature podcasts
- **Business:** People who listen to business podcasts
- **Comedy:** People who listen to comedy-related content (including albums and podcasts)
- **Commuting:** People who listen to commute-related playlists
- **Cooking:** People who listen to cooking-related playlists
- **Culture & Society:** People who listen to culture & society podcasts
- **DIY Hobbies & Crafts:** People who listen to hobbies & crafts podcasts
- **Education:** People who listen to education podcasts on Spotify
- **Health & Lifestyle:** People who listen to lifestyle & health podcasts
- **History:** People who listen to history podcasts
- **Fitness:** People who listen to fitness-related playlists in categories such as workout, running, biking, and weightlifting
- **Gaming:** People who listen to Spotify on gaming consoles or listening to gaming-related playlists
- **In-car listening:** People who listen to
- **Love & Dating:** People who listen to

Spotify in the car (Ads are targeted to users who recently listened to Spotify in the car, but they aren't served while users stream in the car)

- **News:** People who listen to news & politics podcasts
- **Partying:** People who listen to party-related playlists
- **Running:** People who listen to running-related playlists
- **Sports & Recreation:** People who listen to sports, sports news, & recreation podcasts
- **Tech:** People who listen to technology podcasts or stream via emerging platforms like smart TVs, gaming consoles, and streaming sticks
- **Travel:** People who listen to travel-related playlists

love, dating, & relationship podcasts

- **Parenting:** People who listen to kids' playlists, children's music, and kids & family podcasts
- **Podcasts:** People who listen to podcasts (Ads are targeted to users who recently listened to podcasts, but they aren't served during podcasts)
- **Science & Medicine:** People who listen to life sciences & medicine podcasts
- **Studying or focusing:** People who listen to study- or focus-related playlists
- **Theater:** People who listen to Broadway-related playlists
- **TV & Film:** People who listen to TV & film podcasts

Real-time context targeting

Real-time context targeting allows you to reach people who are listening to music tailored to specific activities, moments, and moods.

How we do it:

- We identify user-curated and Spotify-curated playlists aligned with popular activities and moments.
- We deliver targeted messages to users who are listening to playlists in each category. You can select multiple real-time contexts to expand your potential audience.

Available real-time contexts:

- Chill
- Dinner
- Gaming
- Party
- Travel
- Cooking
- Focus
- Holidays
- Study
- Workout

Genre targeting

Genre targeting allows you to deliver your message immediately after a user has listened to a song of a specific genre. You can select multiple genres to expand your potential audience.

Available genres:

- Alternative
- Christian
- Country
- EDM
- Folk
- Hip Hop
- House
- Jazz
- Metal
- Pop
- Reggae
- Blues
- Classical
- Easy Listening
- Electronica
- Funk
- Holiday
- Indie Rock
- Latin
- New Age
- Punk
- RnB

- Rock
- Spoken Audio
- Soundtrack
- Traditional

Fan targeting –

Fan targeting allows you to use Spotify's proprietary streaming data to target known fans of an artist you're promoting or fans of other artists. Here's how:

- To identify fans of an artist, we analyze recent listening behavior along with other identifiers such as playlist adds and follows.
- Select artist(s) in the Ad Studio interface under the fans header as you're defining your target audience.
- A label can use an artist's track, image, and name in an ad promoting that artist.
- If you're a music advertiser who is promoting an artist or event, you can target fans of the specific artist you're promoting or fans of other artists.
- We'll deliver your targeted message to fans of the artist(s) you selected.
  - Note: When running a campaign to promote an artist or a music event (e.g. concert or festival), your ad creative can only mention and feature the specific artist or event you are promoting.
- A promoter can use an artist's track, image, and name in an ad promoting an event where that artist is billed as a performer.

Be sure to only feature the specific artist(s) you're promoting in your ad. We won't be able to approve ads that feature or mention other artists.

Collapse all

Help Center Main Menu

Getting started →

Ad creation →

Targeting →

Reporting →

Campaign management →

Promoting music →

Billing and payments →

Troubleshooting →

Let's talk

I am
a brand/business
looking to

First Name

COEX-
8.182

Last Name

Email Address

For the Record

Artists

Spotify for Developers

Video ads

Podcast ads

Programmatic ads

Help center

Legal | Privacy Center | Privacy Policy | Cookies | About Ads | Additional CA Privacy Disclosures | Spotify Advertising Program Terms & Conditions | USA | © 2021 Spotify AB

COEX-8.183

COEX-
8.183

Brand Loyalty

investopedia.com/terms/b/brand-loyalty.asp

What Is Brand Loyalty?

Brand loyalty is the positive association consumers attach to a particular product or brand. Customers who exhibit brand loyalty are devoted to a product or service, which is demonstrated by their repeat purchases despite competitors' efforts to lure them away. Corporations invest significant amounts of money in customer service and marketing to create and maintain brand loyalty for an established product. Coca-Cola Company is an example of an iconic brand that has resulted in customers demonstrating brand loyalty over the years despite Pepsi's products and marketing efforts.

Key Takeaways

- Brand loyalty is demonstrated by repeat purchases of a product even when the consumer has choices of competing alternatives.
- Marketing campaigns are designed to nurture brand loyalty.
- Brand loyalty can evaporate when consumer trends change, but the product doesn't.
- Brand loyal customers commit to a brand without respect to price.

- Although the internet presents many choices, it also provides a new opportunity for companies to enhance their image and build meaningful relationships with customers.

How Brand Loyalty Works

Loyal customers are the ones who will purchase the same brand regardless of convenience or price. These loyal customers have found a product that meets their needs, and they're not interested in experimenting with another brand.

Most established brand name products exist in a highly competitive market overwhelmed with new and old competing products, many of them barely distinguishable. As a result, companies employ many tactics to create and maintain brand loyalty. They spend their advertising budgets on messages targeted at the segment of the market that includes their loyal customers and like-minded people who could become loyal customers.

How to Create Brand Loyalty

Marketing departments follow consumer buying trends closely and work to build relationships with their customers through active customer service. Consumer trends are the habits and behaviors exhibited by consumers regularly and over time. Some trends are static, but most trends evolve. Companies collect and analyze data on customer spending habits to better understand how to market their product. Marketers track changes in trends and create a corresponding marketing campaign to help the company acquire and keep the brand's loyal customers.

90%

The percent of consumers who are brand loyal despite having many alternatives.

Stellar Customer Service

Perhaps one of the most important tactics for building brand loyalty is to provide exceptional customer service. Oftentimes, this is the only thing that sets a company apart from its competitors. Customer service done well contributes to a positive brand image and reassures customers that they are needed and valued.

Within the customer service framework, brands should develop a system whereby customers can submit feedback, register complaints, and provide feedback. A dedicated team of skilled associates should be assigned to address their submissions promptly. Through these interactions, the company can develop and maintain strong relationships with customers, who will often commit to the brand and share their experiences with others.

Brand Ambassadors

Companies hire brand ambassadors to be spokespersons for their products. Brand ambassadors are chosen for their appeal to the target market. They can effectively disseminate positive word of mouth. A brand loyalty campaign is most successful when it addresses the attributes that are crucial to its segment of the market. For example, a Subaru will keep your kids safe, and a Lincoln will make you as cool as Mathew McConaughey.

When a company ignores consumer trends, they lose brand-loyal customers.

How Brand Loyalty Is Lost

Continuous monitoring and research are needed to measure the utility of products and identify modifications that will offer additional consumer benefits and increase brand loyalty. Utility is an economic measure of the level of satisfaction consumers derive from a product or service.

When a company ignores consumer trends, it might lose brand-loyal customers, which could lead to forfeiting potential profits and eroding the company's market share. Many large corporations, which once had a monopolistic advantage, such as Blockbuster, failed because their product was misaligned with their customers' changing needs. To assume that a product will always meet the needs of the consumers is a certainty for failure.

Loyalty is also compromised when consumers lose trust in the brand. When companies are embroiled in scandals, their customers often suffer and, as a result, lose trust in the brand to continue delivering value.

For example, Tylenol suffered a devastating blow to its brand when some of its products were laced with cyanide, causing the deaths of 7 people. However, the company immediately addressed the issue by taking accountability and creating a strong crisis management program to address concerns and prevent future occurrences. Eventually, Tylenol regained the trust of its customers and repositioned itself as a leader in its industry.

Brand Loyalty and the Internet

Before the internet, the most common way to build brand loyalty was through the interaction of a salesperson and a customer. Today, the internet provides access to thousands of consumer products and services without the salesperson as the intermediary. Consumers, empowered to conduct independent research and compare competitors' offerings, can make informed choices and are less committed to specific brands.

Because the Internet presents the power of choice, companies have shifted from a brand-focused agenda to a customer-centric model. To gain market share and retain customers, emphasis is placed on building customer relationships, providing excellent customer service, and delivering value.

Companies with large consumer bases often review their processes to ensure that they are delivering upon the needs of the customer and in a manner that makes their experiences rewarding. Using the power of the internet, many companies allow customers to contact them via social media, and many have dedicated social media accounts to promote the brand, enhance its customer relationships, and accept feedback.

Real-World Example

Apple Inc. (AAPL) has nearly 2 billion iPhone customers, many of whom are loyal to the brand. Each year, the iPhone has new upgrades, and consumers rush to the stores to buy the latest version. Apple's reputation for innovative products and excellent service has helped to create a loyal customer following that's extremely unlikely to switch to a competitor.

As the company rolls out more fee-based services, including Apple TV and gaming, the company is likely to add to its share of wallet, meaning more revenue per client. As consumers get hooked on new shows and other services, they'll gladly upgrade to the latest iPhone or tablet when needed. Through innovative products and new services, Apple can further cement the brand loyalty of their existing clients and attract new ones as well.

What Is Brand Loyalty FAQs

Why Is Brand Loyalty Important?

Customers who are loyal to a brand will continue purchasing and will often try new products. These customers will likely spread positive word of mouth, persuading others to try the brand's products.

What Is the Difference Between Brand Loyalty and Customer Loyalty?

Although closely related, there are subtle differences between customer loyalty and brand loyalty. Customer loyalty is the commitment from customers to continue purchasing from a company based on the benefits received from those purchases. Customer loyalty is largely based on price, benefits, and rewards. The more value or benefits a customer receives, the more likely they will shop with that company in the future.

On the other hand, brand loyalty is the commitment from customers to continue purchasing from a company because of their experiences and perception of the brand. Brand loyalty is not dependent on price or substitutes. Customers value the experiences and value gained from their association with the brand.

What Companies Have Good Brand Loyalty?

Apple and Nike are examples of companies with good brand loyalty. Apple consistently introduces new models with cutting-edge technology and provides unique customer service experiences. It delivers products and services based on what consumers want and need, pursuing the goal of creating rewarding experiences through innovation.

Nike creates campaigns to tell compelling stories and sponsors communities where consumers share common interests and goals, fostering an emotional connection to the brand. It also allows customers to explore their individuality and uniqueness by allowing them to customize their selections. These measures make customers feel seen and valued.

Why Do People Leave Brands?

People leave brands for various reasons, including when the brand no longer fulfills or is misaligned with their needs. Brand loyalty is also diminished when consumers lose trust in the brand's ability to deliver value.

COEX-8.184
RESTRICTED
FILED UNDER SEAL

COEX-8.185
RESTRICTED
FILED UNDER SEAL

COEX-8.186

COEX
8.186

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 December 31, 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 No. 000-22513

AMAZON.COM, INC.

(Exact Name of Registrant as Specified in its Charter)

Delaware	**91-1646860**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

410 Terry Avenue North
Seattle, Washington 98109-5210
(206) 266-1000
(Address and telephone number, including area code, of registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, par value $.01 per share	NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment 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	x	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

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

Aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2015	$	166,381,236,673
Number of shares of common stock outstanding as of January 20, 2016		470,842,035

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this Report, to the extent not set forth herein, is incorporated herein by reference from the registrant's definitive proxy statement relating to the Annual Meeting of Shareholders to be held in 2016, which definitive proxy statement shall be filed with the Securities and Exchange

Commission within 120 days after the end of the fiscal year to which this Report relates.

COEX
8.186

AMAZON.COM, INC.
FORM 10-K
For the Fiscal Year Ended December 31, 2015

INDEX

		Page
	PART I	
Item 1.	Business	3
Item 1A.	Risk Factors	6
Item 1B.	Unresolved Staff Comments	14
Item 2.	Properties	15
Item 3.	Legal Proceedings	15
Item 4.	Mine Safety Disclosures	15
	PART II	
Item 5.	Market for the Registrant's Common Stock, Related Shareholder Matters, and Issuer Purchases of Equity Securities	16
Item 6.	Selected Consolidated Financial Data	17
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operation	18
Item 7A.	Quantitative and Qualitative Disclosure About Market Risk	34
Item 8.	Financial Statements and Supplementary Data	36
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	72
Item 9A.	Controls and Procedures	72
Item 9B.	Other Information	74
	PART III	
Item 10.	Directors, Executive Officers, and Corporate Governance	74
Item 11.	Executive Compensation	74
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters	74
Item 13.	Certain Relationships and Related Transactions, and Director Independence	74
Item 14.	Principal Accountant Fees and Services	74
	PART IV	
Item 15.	Exhibits, Financial Statement Schedules	75
Signatures		76

AMAZON.COM, INC.

PART I

Item 1. *Business*

This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements based on expectations, estimates, and projections as of the date of this filing. Actual results may differ materially from those expressed in forward-looking statements. See Item 1A of Part I—"Risk Factors."

Amazon.com, Inc. was incorporated in 1994 in the state of Washington and reincorporated in 1996 in the state of Delaware. Our principal corporate offices are located in Seattle, Washington. We completed our initial public offering in May 1997 and our common stock is listed on the NASDAQ Global Select Market under the symbol "AMZN."

As used herein, "Amazon.com," "we," "our," and similar terms include Amazon.com, Inc. and its subsidiaries, unless the context indicates otherwise.

General

Amazon.com opened its virtual doors on the World Wide Web in July 1995. We seek to be Earth's most customer-centric company. We are guided by four principles: customer obsession rather than competitor focus, passion for invention, commitment to operational excellence, and long-term thinking. In each of our segments, we serve our primary customer sets, consisting of consumers, sellers, developers, enterprises, and content creators. In addition, we provide services, such as advertising services and co-branded credit card agreements.

Beginning in the first quarter of 2015, we changed our reportable segments to North America, International, and Amazon Web Services ("AWS"). These segments reflect the way the Company evaluates its business performance and manages its operations. Additional information on our operating segments and product information is contained in Item 8 of Part II, "Financial Statements and Supplementary Data—Note 11—Segment Information." See Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Supplemental Information" for supplemental information about our net sales. Our company-sponsored research and development expense is set forth within "Technology and content" in Item 8 of Part II, "Financial Statements and Supplementary Data—Consolidated Statements of Operations."

Consumers

We serve consumers through our retail websites and focus on selection, price, and convenience. We design our websites to enable millions of unique products to be sold by us and by third parties across dozens of product categories. Customers access our websites directly and through our mobile websites and apps. We also manufacture and sell electronic devices, including Kindle e-readers, Fire tablets, Fire TVs, and Echo. We strive to offer our customers the lowest prices possible through low everyday product pricing and shipping offers, and to improve our operating efficiencies so that we can continue to lower prices for our customers. We also provide easy-to-use functionality, fast and reliable fulfillment, and timely customer service. In addition, we offer Amazon Prime, an annual membership program that includes unlimited free shipping on millions of items, access to unlimited instant streaming of thousands of movies and TV episodes, and other benefits.

We fulfill customer orders in a number of ways, including through: North America and International fulfillment and delivery networks that we operate; co-sourced and outsourced arrangements in certain countries; and digital delivery. We operate customer service centers globally, which are supplemented by co-sourced arrangements. See Item 2 of Part I, "Properties."

Sellers

We offer programs that enable sellers to sell their products on our websites and their own branded websites and to fulfill orders through us. We are not the seller of record in these transactions, but instead earn fixed fees, a percentage of sales, per-unit activity fees, or some combination thereof.

Developers and Enterprises

We serve developers and enterprises of all sizes, including start-ups, government agencies, and academic institutions, through our AWS segment, which offers a broad set of global compute, storage, database, and other service offerings.

Content Creators

We serve authors and independent publishers with Kindle Direct Publishing, an online platform that lets independent authors and publishers choose a 70% royalty option and make their books available in the Kindle Store, along with Amazon's own publishing arm, Amazon Publishing. We also offer programs that allow authors, musicians, filmmakers, app developers, and others to publish and sell content.

Competition

Our businesses encompass a large variety of product types, service offerings, and delivery channels. The international marketplace in which we compete is evolving rapidly and intensely competitive, and we face a broad array of competitors from many different industry sectors around the world. Our current and potential competitors include: (1) online, offline, and multichannel retailers, publishers, vendors, distributors, manufacturers, and producers of the products we offer and sell to consumers and businesses; (2) publishers, producers, and distributors of physical, digital, and interactive media of all types and all distribution channels; (3) web search engines, comparison shopping websites, social networks, web portals, and other online and app-based means of discovering, using, or acquiring goods and services, either directly or in collaboration with other retailers; (4) companies that provide e-commerce services, including website development, advertising, fulfillment, customer service, and payment processing; (5) companies that provide fulfillment and logistics services for themselves or for third parties, whether online or offline; (6) companies that provide information technology services or products, including on-premises or cloud-based infrastructure and other services; and (7) companies that design, manufacture, market, or sell consumer electronics, telecommunication, and electronic devices. We believe that the principal competitive factors in our retail businesses include selection, price, and convenience, including fast and reliable fulfillment. Additional competitive factors for our seller and enterprise services include the quality, speed, and reliability of our services and tools, as well as customers' ability and willingness to change business practices. Some of our current and potential competitors have greater resources, longer histories, more customers, greater brand recognition, and greater control over inputs critical to our various businesses. They may secure better terms from suppliers, adopt more aggressive pricing, pursue restrictive distribution agreements that restrict our access to supply, direct consumers to their own offerings instead of ours, lock-in potential customers with restrictive terms, and devote more resources to technology, infrastructure, fulfillment, and marketing. Each of our businesses is also subject to rapid change and the development of new business models and the entry of new and well-funded competitors. Other companies also may enter into business combinations or alliances that strengthen their competitive positions.

Intellectual Property

We regard our trademarks, service marks, copyrights, patents, domain names, trade dress, trade secrets, proprietary technologies, and similar intellectual property as critical to our success, and we rely on trademark, copyright, and patent law, trade-secret protection, and confidentiality and/or license agreements with our employees, customers, partners, and others to protect our proprietary rights. We have registered, or applied for the registration of, a number of U.S. and international domain names, trademarks, service marks, and copyrights. Additionally, we have filed U.S. and international patent applications covering certain of our proprietary technology. We have licensed in the past, and expect that we may license in the future, certain of our proprietary rights to third parties.

Seasonality

Our business is affected by seasonality, which historically has resulted in higher sales volume during our fourth quarter, which ends December 31. We recognized 33%, 33%, and 34% of our annual revenue during the fourth quarter of 2015, 2014, and 2013.

Employees

We employed approximately 230,800 full-time and part-time employees as of December 31, 2015. However, employment levels fluctuate due to seasonal factors affecting our business. Additionally, we utilize independent contractors and temporary personnel to supplement our workforce. We have works councils, statutory employee representation obligations, and union agreements in certain countries outside the United States. We consider our employee relations to be good. Competition for qualified personnel in our industry has historically been intense, particularly for software engineers, computer scientists, and other technical staff.

Available Information

Our investor relations website is www.amazon.com/ir and we encourage investors to use it as a way of easily finding information about us. We promptly make available on this website, free of charge, the reports that we file or furnish with the

Securities and Exchange Commission ("SEC"), corporate governance information (including our Code of Business Conduct and Ethics), and select press releases and social media postings.

Executive Officers and Directors

The following tables set forth certain information regarding our Executive Officers and Directors as of January 20, 2016:

Executive Officers of the Registrant

Name	Age	Position
Jeffrey P. Bezos	52	President, Chief Executive Officer, and Chairman of the Board
Jeffrey M. Blackburn	46	Senior Vice President, Business Development
Andrew R. Jassy	48	Senior Vice President, Amazon Web Services
Brian T. Olsavsky	52	Senior Vice President and Chief Financial Officer
Diego Piacentini	55	Senior Vice President, International Consumer Business
Shelley L. Reynolds	51	Vice President, Worldwide Controller, and Principal Accounting Officer
Jeffrey A. Wilke	49	Senior Vice President, Consumer Business
David A. Zapolsky	52	Senior Vice President, General Counsel, and Secretary

Jeffrey P. Bezos. Mr. Bezos has been Chairman of the Board of Amazon.com since founding it in 1994 and Chief Executive Officer since May 1996. Mr. Bezos served as President of the Company from founding until June 1999 and again from October 2000 to the present.

Jeffrey M. Blackburn. Mr. Blackburn has served as Senior Vice President, Business Development, since April 2006.

Andrew R. Jassy. Mr. Jassy has served as Senior Vice President, Amazon Web Services, since April 2006.

Brian T. Olsavsky. Mr. Olsavsky has served as Senior Vice President and Chief Financial Officer since June 2015, Vice President, Finance for the Global Consumer Business from December 2011 to June 2015, and numerous financial leadership roles across Amazon with global responsibility since April 2002.

Diego Piacentini. Mr. Piacentini has served as Senior Vice President, International Consumer Business, since February 2012, and as Senior Vice President, International Retail, from January 2007 until February 2012.

Shelley L. Reynolds. Ms. Reynolds has served as Vice President, Worldwide Controller, and Principal Accounting Officer since April 2007.

Jeffrey A. Wilke. Mr. Wilke has served as Senior Vice President, Consumer Business, since February 2012, and as Senior Vice President, North America Retail, from January 2007 until February 2012.

David A. Zapolsky. Mr. Zapolsky has served as Senior Vice President, General Counsel, and Secretary since May 2014, Vice President, General Counsel, and Secretary from September 2012 to May 2014, and as Vice President and Associate General Counsel for Litigation and Regulatory matters from April 2002 until September 2012.

Board of Directors

Name	Age	Position
Jeffrey P. Bezos	52	President, Chief Executive Officer, and Chairman of the Board
Tom A. Alberg	75	Managing Director, Madrona Venture Group
John Seely Brown	75	Visiting Scholar and Advisor to the Provost, University of Southern California
William B. Gordon	65	Partner, Kleiner Perkins Caufield & Byers
Jamie S. Gorelick	65	Partner, Wilmer Cutler Pickering Hale and Dorr LLP
Judith A. McGrath	63	President, Astronauts Wanted * No experience necessary
Alain Monié	65	Chief Executive Officer, Ingram Micro Inc.

Jonathan J. Rubinstein	59	Former Chairman and CEO, Palm, Inc.
Thomas O. Ryder	71	Retired, Former Chairman, Reader’s Digest Association, Inc.
Patricia Q. Stonesifer	59	President and Chief Executive Officer, Martha’s Table

Item 1A. ***Risk Factors***

Please carefully consider the following risk factors. If any of the following risks occur, our business, financial condition, operating results, and cash flows could be materially adversely affected. In addition, the current global economic climate amplifies many of these risks.

We Face Intense Competition

Our businesses are rapidly evolving and intensely competitive, and we have many competitors in different industries, including retail, e-commerce services, digital content and electronic devices, and web and infrastructure computing services. Some of our current and potential competitors have greater resources, longer histories, more customers, and/or greater brand recognition. They may secure better terms from vendors, adopt more aggressive pricing, and devote more resources to technology, infrastructure, fulfillment, and marketing.

Competition may intensify as our competitors enter into business combinations or alliances and established companies in other market segments expand to become competitive with our business. In addition, new and enhanced technologies, including search, web and infrastructure computing services, digital content, and electronic devices, may increase our competition. The Internet facilitates competitive entry and comparison shopping, and increased competition may reduce our sales and profits.

Our Expansion Places a Significant Strain on our Management, Operational, Financial, and Other Resources

We are rapidly and significantly expanding our global operations, including increasing our product and service offerings and scaling our infrastructure to support our retail and services businesses. This expansion increases the complexity of our business and places significant strain on our management, personnel, operations, systems, technical performance, financial resources, and internal financial control and reporting functions. We may not be able to manage growth effectively, which could damage our reputation, limit our growth, and negatively affect our operating results.

Our Expansion into New Products, Services, Technologies, and Geographic Regions Subjects Us to Additional Business, Legal, Financial, and Competitive Risks

We may have limited or no experience in our newer market segments, and our customers may not adopt our new offerings. These offerings may present new and difficult technology challenges, and we may be subject to claims if customers of these offerings experience service disruptions or failures or other quality issues. In addition, profitability, if any, in our newer activities may be lower than in our older activities, and we may not be successful enough in these newer activities to recoup our investments in them. If any of this were to occur, it could damage our reputation, limit our growth, and negatively affect our operating results.

We May Experience Significant Fluctuations in Our Operating Results and Growth Rate

We may not be able to accurately forecast our growth rate. We base our expense levels and investment plans on sales estimates. A significant portion of our expenses and investments is fixed, and we may not be able to adjust our spending quickly enough if our sales are less than expected.

Our revenue growth may not be sustainable, and our percentage growth rates may decrease. Our revenue and operating profit growth depends on the continued growth of demand for the products and services offered by us or our sellers, and our business is affected by general economic and business conditions worldwide. A softening of demand, whether caused by changes in customer preferences or a weakening of the U.S. or global economies, may result in decreased revenue or growth.

Our sales and operating results will also fluctuate for many other reasons, including due to risks described elsewhere in this section and the following:

- our ability to retain and increase sales to existing customers, attract new customers, and satisfy our customers' demands;
- our ability to retain and expand our network of sellers;
- our ability to offer products on favorable terms, manage inventory, and fulfill orders;
- the introduction of competitive websites, products, services, price decreases, or improvements;
- changes in usage or adoption rates of the Internet, e-commerce, electronic devices, and web services, including outside the U.S.;

- timing, effectiveness, and costs of expansion and upgrades of our systems and infrastructure;
- the success of our geographic, service, and product line expansions;

- the extent to which we finance, and the terms of any such financing for, our current operations and future growth;
- the outcomes of legal proceedings and claims, which may include significant monetary damages or injunctive relief and could have a material adverse impact on our operating results;
- variations in the mix of products and services we sell;
- variations in our level of merchandise and vendor returns;
- the extent to which we offer free shipping, continue to reduce prices worldwide, and provide additional benefits to our customers;
- the extent to which we invest in technology and content, fulfillment, and other expense categories;
- increases in the prices of fuel and gasoline, as well as increases in the prices of other energy products and commodities like paper and packing supplies;
- the extent to which our equity-method investees record significant operating and non-operating items;
- the extent to which operators of the networks between our customers and our websites successfully charge fees to grant our customers unimpaired and unconstrained access to our online services;
- our ability to collect amounts owed to us when they become due;
- the extent to which use of our services is affected by spyware, viruses, phishing and other spam emails, denial of service attacks, data theft, computer intrusions, outages, and similar events; and
- terrorist attacks and armed hostilities.

Our International Operations Expose Us to a Number of Risks

Our international activities are significant to our revenues and profits, and we plan to further expand internationally. In certain international market segments, we have relatively little operating experience and may not benefit from any first-to-market advantages or otherwise succeed. It is costly to establish, develop, and maintain international operations and websites, and promote our brand internationally. Our international operations may not be profitable on a sustained basis.

In addition to risks described elsewhere in this section, our international sales and operations are subject to a number of risks, including:

- local economic and political conditions;
- government regulation of e-commerce and other services, electronic devices, and competition, and restrictive governmental actions (such as trade protection measures, including export duties and quotas and custom duties and tariffs), nationalization, and restrictions on foreign ownership;
- restrictions on sales or distribution of certain products or services and uncertainty regarding liability for products, services, and content, including uncertainty as a result of less Internet-friendly legal systems, local laws, lack of legal precedent, and varying rules, regulations, and practices regarding the physical and digital distribution of media products and enforcement of intellectual property rights;
- business licensing or certification requirements, such as for imports, exports, web services, and electronic devices;
- limitations on the repatriation and investment of funds and foreign currency exchange restrictions;
- limited fulfillment and technology infrastructure;
- shorter payable and longer receivable cycles and the resultant negative impact on cash flow;
- laws and regulations regarding consumer and data protection, privacy, network security, encryption, payments, and restrictions on pricing or discounts;
- lower levels of use of the Internet;
- lower levels of consumer spending and fewer opportunities for growth compared to the U.S.;
- lower levels of credit card usage and increased payment risk;
- difficulty in staffing, developing, and managing foreign operations as a result of distance, language, and cultural differences;
- different employee/employer relationships and the existence of works councils and labor unions;

- compliance with the U.S. Foreign Corrupt Practices Act and other applicable U.S. and foreign laws prohibiting corrupt payments to government officials and other third parties;

- laws and policies of the U.S. and other jurisdictions affecting trade, foreign investment, loans, and taxes; and
- geopolitical events, including war and terrorism.

As international e-commerce and other online and web services grow, competition will intensify. Local companies may have a substantial competitive advantage because of their greater understanding of, and focus on, the local customer, as well as their more established local brand names. We may not be able to hire, train, retain, and manage required personnel, which may limit our international growth.

The People's Republic of China ("PRC") and India regulate Amazon's and its affiliates' businesses and operations in country through regulations and license requirements that may restrict (i) foreign investment in and operation of the Internet, IT infrastructure, data centers, retail, delivery, and other sectors, (ii) Internet content, and (iii) the sale of media and other products and services. For example, in order to meet local ownership and regulatory licensing requirements, www.amazon.cn is operated by PRC companies that are indirectly owned, either wholly or partially, by PRC nationals. In addition, we provide certain technology services in China in conjunction with third parties that hold PRC licenses to provide services. In India, the government restricts the ownership or control of Indian companies by foreign entities involved in online multi-brand retail trading activities. For www.amazon.in, we provide certain marketing tools and logistics services to third party sellers to enable them to sell online and deliver to customers, and we hold an indirect minority interest in an entity that is a third-party seller on the www.amazon.in marketplace. Although we believe these structures and activities comply with existing laws, they involve unique risks, and the PRC is actively considering changes in its foreign investment rules that could impact these structures and activities. There are substantial uncertainties regarding the interpretation of PRC and Indian laws and regulations, and it is possible that these governments will ultimately take a view contrary to ours. In addition, our Chinese and Indian businesses and operations may be unable to continue to operate if we or our affiliates are unable to access sufficient funding or in China enforce contractual relationships with respect to management and control of such businesses. If our international activities were found to be in violation of any existing or future PRC, Indian or other laws or regulations or if interpretations of those laws and regulations were to change, our businesses in those countries could be subject to fines and other financial penalties, have licenses revoked, or be forced to shut down entirely.

If We Do Not Successfully Optimize and Operate Our Fulfillment Network and Data Centers, Our Business Could Be Harmed

If we do not adequately predict customer demand or otherwise optimize and operate our fulfillment network and data centers successfully, it could result in excess or insufficient fulfillment or data center capacity, or result in increased costs, impairment charges, or both, or harm our business in other ways. As we continue to add fulfillment and data center capability or add new businesses with different requirements, our fulfillment and data center networks become increasingly complex and operating them becomes more challenging. There can be no assurance that we will be able to operate our networks effectively.

In addition, a failure to optimize inventory in our fulfillment network will increase our net shipping cost by requiring long-zone or partial shipments. Orders from several of our websites are fulfilled primarily from a single location, and we have only a limited ability to reroute orders to third parties for drop-shipping. We and our co-sourcers may be unable to adequately staff our fulfillment network and customer service centers. If the other businesses on whose behalf we perform inventory fulfillment services deliver product to our fulfillment centers in excess of forecasts, we may be unable to secure sufficient storage space and may be unable to optimize our fulfillment network.

We rely on a limited number of shipping companies to deliver inventory to us and completed orders to our customers. If we are not able to negotiate acceptable terms with these companies or they experience performance problems or other difficulties, it could negatively impact our operating results and customer experience. In addition, our ability to receive inbound inventory efficiently and ship completed orders to customers also may be negatively affected by inclement weather, fire, flood, power loss, earthquakes, labor disputes, acts of war or terrorism, acts of God, and similar factors.

Third parties either drop-ship or otherwise fulfill an increasing portion of our customers' orders, and we are increasingly reliant on the reliability, quality, and future procurement of their services. Under some of our commercial agreements, we maintain the inventory of other companies, thereby increasing the complexity of tracking inventory and operating our fulfillment network. Our failure to properly handle such inventory or the inability of these other companies to accurately forecast product demand would result in unexpected costs and other harm to our business and reputation.

The Seasonality of Our Business Places Increased Strain on Our Operations

We expect a disproportionate amount of our net sales to occur during our fourth quarter. If we do not stock or restock popular products in sufficient amounts such that we fail to meet customer demand, it could significantly affect our revenue and our future growth. If we overstock products, we may be required to take significant inventory markdowns or write-offs and incur commitment costs, which could reduce profitability. We may experience an increase in our net shipping cost due to complimentary upgrades, split-shipments, and additional long-zone shipments necessary to ensure timely delivery for the holiday season. If too many customers access our websites within a short period of time due to increased holiday demand, we may experience system interruptions that make our websites unavailable or prevent us from efficiently fulfilling orders, which may reduce the volume of goods we sell and the attractiveness of our products and services. In addition, we may be unable to adequately staff our fulfillment network and customer service centers during these peak periods and delivery and other fulfillment companies and customer service co-sourcers may be unable to meet the seasonal demand. We also face risks described elsewhere in this Item 1A relating to fulfillment network optimization and inventory.

We generally have payment terms with our retail vendors that extend beyond the amount of time necessary to collect proceeds from our consumer customers. As a result of holiday sales, as of December 31 of each year, our cash, cash equivalents, and marketable securities balances typically reach their highest level (other than as a result of cash flows provided by or used in investing and financing activities). This operating cycle results in a corresponding increase in accounts payable as of December 31. Our accounts payable balance generally declines during the first three months of the year, resulting in a corresponding decline in our cash, cash equivalents, and marketable securities balances.

Our Business Could Suffer if We Are Unsuccessful in Making, Integrating, and Maintaining Commercial Agreements, Strategic Alliances, and Other Business Relationships

We provide e-commerce and other services to businesses through commercial agreements, strategic alliances, and business relationships. Under these agreements, we provide web services, technology, fulfillment, computing, digital storage, and other services, as well as enable sellers to offer products or services through our websites. These arrangements are complex and require substantial infrastructure capacity, personnel, and other resource commitments, which may limit the amount of business we can service. We may not be able to implement, maintain, and develop the components of these commercial relationships, which may include web services, fulfillment, customer service, inventory management, tax collection, payment processing, hardware, content, and third-party software, and engaging third parties to perform services. The amount of compensation we receive under certain of our commercial agreements is partially dependent on the volume of the other company's sales. Therefore, if the other company's offering is not successful, the compensation we receive may be lower than expected or the agreement may be terminated. Moreover, we may not be able to enter into additional commercial relationships and strategic alliances on favorable terms. We also may be subject to claims from businesses to which we provide these services if we are unsuccessful in implementing, maintaining, or developing these services.

As our agreements terminate, we may be unable to renew or replace these agreements on comparable terms, or at all. We may in the future enter into amendments on less favorable terms or encounter parties that have difficulty meeting their contractual obligations to us, which could adversely affect our operating results.

Our present and future e-commerce services agreements, other commercial agreements, and strategic alliances create additional risks such as:

- disruption of our ongoing business, including loss of management focus on existing businesses;
- impairment of other relationships;
- variability in revenue and income from entering into, amending, or terminating such agreements or relationships; and
- difficulty integrating under the commercial agreements.

Our Business Could Suffer if We Are Unsuccessful in Making, Integrating, and Maintaining Acquisitions and Investments

We have acquired and invested in a number of companies, and we may acquire or invest in or enter into joint ventures with additional companies. These transactions create risks such as:

- disruption of our ongoing business, including loss of management focus on existing businesses;
- problems retaining key personnel;
- additional operating losses and expenses of the businesses we acquired or in which we invested;

- the potential impairment of tangible and intangible assets and goodwill, including as a result of acquisitions;

- the potential impairment of customer and other relationships of the company we acquired or in which we invested or our own customers as a result of any integration of operations;
- the difficulty of incorporating acquired technology and rights into our offerings and unanticipated expenses related to such integration;
- the difficulty of integrating a new company's accounting, financial reporting, management, information and information security, human resource, and other administrative systems to permit effective management, and the lack of control if such integration is delayed or not implemented;
- for investments in which an investee's financial performance is incorporated into our financial results, either in full or in part, the dependence on the investee's accounting, financial reporting, and similar systems, controls, and processes;
- the difficulty of implementing at companies we acquire the controls, procedures, and policies appropriate for a larger public company;
- potential unknown liabilities associated with a company we acquire or in which we invest; and
- for foreign transactions, additional risks related to the integration of operations across different cultures and languages, and the economic, political, and regulatory risks associated with specific countries.

As a result of future acquisitions or mergers, we might need to issue additional equity securities, spend our cash, or incur debt, contingent liabilities, or amortization expenses related to intangible assets, any of which could reduce our profitability and harm our business. In addition, valuations supporting our acquisitions and strategic investments could change rapidly given the current global economic climate. We could determine that such valuations have experienced impairments or other-than-temporary declines in fair value which could adversely impact our financial results.

We Have Foreign Exchange Risk

The results of operations of, and certain of our intercompany balances associated with, our international websites and product and service offerings are exposed to foreign exchange rate fluctuations. Upon translation, operating results may differ materially from expectations, and we may record significant gains or losses on the remeasurement of intercompany balances. As we have expanded our international operations, our exposure to exchange rate fluctuations has increased. We also hold cash equivalents and/or marketable securities in foreign currencies including British Pounds, Chinese Yuan, Euros, and Japanese Yen. If the U.S. Dollar strengthens compared to these currencies, cash equivalents, and marketable securities balances, when translated, may be materially less than expected and vice versa.

The Loss of Key Senior Management Personnel Could Negatively Affect Our Business

We depend on our senior management and other key personnel, particularly Jeffrey P. Bezos, our President, CEO, and Chairman. We do not have "key person" life insurance policies. The loss of any of our executive officers or other key employees could harm our business.

We Could Be Harmed by Data Loss or Other Security Breaches

As a result of our services being web-based and the fact that we process, store, and transmit large amounts of data, including personal information, for our customers, failure to prevent or mitigate data loss or other security breaches, including breaches of our vendors' technology and systems, could expose us or our customers to a risk of loss or misuse of such information, adversely affect our operating results, result in litigation or potential liability for us, and otherwise harm our business. We use third party technology and systems for a variety of reasons, including, without limitation, encryption and authentication technology, employee email, content delivery to customers, back-office support, and other functions. Some subsidiaries had past security breaches, and, although they did not have a material adverse effect on our operating results, there can be no assurance of a similar result in the future. Although we have developed systems and processes that are designed to protect customer information and prevent data loss and other security breaches, including systems and processes designed to reduce the impact of a security breach at a third party vendor, such measures cannot provide absolute security.

We Face Risks Related to System Interruption and Lack of Redundancy

We experience occasional system interruptions and delays that make our websites and services unavailable or slow to respond and prevent us from efficiently fulfilling orders or providing services to third parties, which may reduce our net sales and the attractiveness of our products and services. If we are unable to continually add software and hardware, effectively upgrade our systems and network infrastructure, and take other steps to improve the efficiency of our systems, it could cause

system interruptions or delays and adversely affect our operating results.

Our computer and communications systems and operations could be damaged or interrupted by fire, flood, power loss, telecommunications failure, earthquakes, acts of war or terrorism, acts of God, computer viruses, physical or electronic break-ins, and similar events or disruptions. Any of these events could cause system interruption, delays, and loss of critical data, and could prevent us from accepting and fulfilling customer orders and providing services, which could make our product and service offerings less attractive and subject us to liability. Our systems are not fully redundant and our disaster recovery planning may not be sufficient. In addition, we may have inadequate insurance coverage to compensate for any related losses. Any of these events could damage our reputation and be expensive to remedy.

We Face Significant Inventory Risk

In addition to risks described elsewhere in this Item 1A relating to fulfillment network and inventory optimization by us and third parties, we are exposed to significant inventory risks that may adversely affect our operating results as a result of seasonality, new product launches, rapid changes in product cycles and pricing, defective merchandise, changes in consumer demand and consumer spending patterns, changes in consumer tastes with respect to our products, and other factors. We endeavor to accurately predict these trends and avoid overstocking or understocking products we manufacture and/or sell. Demand for products, however, can change significantly between the time inventory or components are ordered and the date of sale. In addition, when we begin selling or manufacturing a new product, it may be difficult to establish vendor relationships, determine appropriate product or component selection, and accurately forecast demand. The acquisition of certain types of inventory or components may require significant lead-time and prepayment and they may not be returnable. We carry a broad selection and significant inventory levels of certain products, such as consumer electronics, and we may be unable to sell products in sufficient quantities or during the relevant selling seasons. Any one of the inventory risk factors set forth above may adversely affect our operating results.

We May Not Be Able to Adequately Protect Our Intellectual Property Rights or May Be Accused of Infringing Intellectual Property Rights of Third Parties

We regard our trademarks, service marks, copyrights, patents, trade dress, trade secrets, proprietary technology, and similar intellectual property as critical to our success, and we rely on trademark, copyright, and patent law, trade secret protection, and confidentiality and/or license agreements with our employees, customers, and others to protect our proprietary rights. Effective intellectual property protection may not be available in every country in which our products and services are made available. We also may not be able to acquire or maintain appropriate domain names in all countries in which we do business. Furthermore, regulations governing domain names may not protect our trademarks and similar proprietary rights. We may be unable to prevent third parties from acquiring domain names that are similar to, infringe upon, or diminish the value of our trademarks and other proprietary rights.

We may not be able to discover or determine the extent of any unauthorized use of our proprietary rights. Third parties that license our proprietary rights also may take actions that diminish the value of our proprietary rights or reputation. The protection of our intellectual property may require the expenditure of significant financial and managerial resources. Moreover, the steps we take to protect our intellectual property may not adequately protect our rights or prevent third parties from infringing or misappropriating our proprietary rights. We also cannot be certain that others will not independently develop or otherwise acquire equivalent or superior technology or other intellectual property rights.

Other parties also may claim that we infringe their proprietary rights. We have been subject to, and expect to continue to be subject to, claims and legal proceedings regarding alleged infringement by us of the intellectual property rights of third parties. Such claims, whether or not meritorious, may result in the expenditure of significant financial and managerial resources, injunctions against us, or the payment of damages, including to satisfy indemnification obligations. We may need to obtain licenses from third parties who allege that we have infringed their rights, but such licenses may not be available on terms acceptable to us or at all. In addition, we may not be able to obtain or utilize on terms that are favorable to us, or at all, licenses or other rights with respect to intellectual property we do not own. These risks have been amplified by the increase in third parties whose sole or primary business is to assert such claims.

Our digital content offerings depend in part on effective digital rights management technology to control access to digital content. If the digital rights management technology that we use is compromised or otherwise malfunctions, we could be subject to claims, and content providers may be unwilling to include their content in our service.

We Have a Rapidly Evolving Business Model and Our Stock Price Is Highly Volatile

We have a rapidly evolving business model. The trading price of our common stock fluctuates significantly in response to, among other risks, the risks described elsewhere in this Item 1A, as well as:

- changes in interest rates;
- conditions or trends in the Internet and the industry segments we operate in;

- quarterly variations in operating results;
- fluctuations in the stock market in general and market prices for Internet-related companies in particular;
- changes in financial estimates by us or securities analysts and recommendations by securities analysts;
- changes in our capital structure, including issuance of additional debt or equity to the public;
- changes in the valuation methodology of, or performance by, other e-commerce or technology companies; and
- transactions in our common stock by major investors and certain analyst reports, news, and speculation.

Volatility in our stock price could adversely affect our business and financing opportunities and force us to increase our cash compensation to employees or grant larger stock awards than we have historically, which could hurt our operating results or reduce the percentage ownership of our existing stockholders, or both.

Government Regulation Is Evolving and Unfavorable Changes Could Harm Our Business

We are subject to general business regulations and laws, as well as regulations and laws specifically governing the Internet, e-commerce, electronic devices, and other services. Existing and future laws and regulations may impede our growth. These regulations and laws may cover taxation, privacy, data protection, pricing, content, copyrights, distribution, mobile communications, electronic device certification, electronic waste, energy consumption, environmental regulation, electronic contracts and other communications, competition, consumer protection, web services, the provision of online payment services, information reporting requirements, unencumbered Internet access to our services or access to our facilities, the design and operation of websites, the characteristics and quality of products and services, and the commercial operation of unmanned aircraft systems. It is not clear how existing laws governing issues such as property ownership, libel, and personal privacy apply to the Internet, e-commerce, digital content, and web services. Jurisdictions may regulate consumer-to-consumer online businesses, including certain aspects of our seller programs. Unfavorable regulations and laws could diminish the demand for our products and services and increase our cost of doing business.

We Could Be Subject to Additional Sales Tax or Other Indirect Tax Liabilities

U.S. Supreme Court decisions restrict the imposition of obligations to collect state and local sales taxes with respect to remote sales in the U.S. However, an increasing number of states, and certain foreign jurisdictions, have considered or adopted laws or administrative practices that attempt to impose obligations on remote sellers and online marketplaces to collect taxes on their behalf. We support a Federal law that would allow states to require sales tax collection by remote sellers under a nationwide system. More than half of our revenue is already earned in jurisdictions where we collect sales tax or its equivalent. A successful assertion by one or more states or foreign countries requiring us to collect taxes where we do not do so could result in substantial tax liabilities, including for past sales, as well as penalties and interest. In addition, if the tax authorities in jurisdictions where we already collect sales tax or other indirect taxes were successfully to challenge our positions, our tax liability could increase substantially.

We Could Be Subject to Additional Income Tax Liabilities

We are subject to income taxes in the U.S. (federal and state) and numerous foreign jurisdictions. Tax laws, regulations, and administrative practices in various jurisdictions may be subject to significant change due to economic, political, and other conditions, and significant judgment is required in evaluating and estimating our provision and accruals for these taxes. There are many transactions that occur during the ordinary course of business for which the ultimate tax determination is uncertain. Our effective tax rates could be adversely affected by earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates, losses incurred in jurisdictions for which we are not able to realize the related tax benefit, changes in foreign currency exchange rates, entry into new businesses and geographies and changes to our existing businesses, acquisitions (including integrations) and investments, changes in our deferred tax assets and liabilities and their valuation, and changes in the relevant tax, accounting, and other laws, regulations, administrative practices, principles, and interpretations, including fundamental changes to the tax laws applicable to corporate multinationals. The U.S., the European Union and its member states, and a number of other countries are actively pursuing changes in this regard.

Except as required under U.S. tax laws, we do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed since we intend to invest such undistributed earnings indefinitely outside of the U.S. If our intent changes or if these funds are needed for our U.S. operations, we would be required to accrue or pay U.S. taxes on some or all of these undistributed earnings and our effective tax rate would be adversely affected. We are also currently subject to audit in various jurisdictions, and these jurisdictions may assess additional income tax liabilities against us.

Developments in an audit, litigation, or the relevant laws, regulations, administrative practices, principles, and interpretations could have a material effect on our operating results or cash flows in the period or periods for which that development occurs,

as well as for prior and subsequent periods. For instance, the IRS is seeking to increase our U.S. taxable income related to transfer pricing with our foreign subsidiaries for transactions undertaken in 2005 and 2006, and we are currently contesting the matter in U.S. Tax Court. In addition to the risk of additional tax for 2005 and 2006 transactions, if this litigation is adversely determined or if the IRS were to seek transfer pricing adjustments of a similar nature for transactions in subsequent years, we could be subject to significant additional tax liabilities. In addition, in October 2014, the European Commission opened a formal investigation to examine whether decisions by the tax authorities in Luxembourg with regard to the corporate income tax paid by certain of our subsidiaries comply with European Union rules on state aid. If this matter is adversely resolved, Luxembourg may be required to assess, and we may be required to pay, additional amounts with respect to current and prior periods and our taxes in the future could increase. Although we believe our tax estimates are reasonable, the final outcome of tax audits, investigations, and any related litigation could be materially different from our historical income tax provisions and accruals.

Our Supplier Relationships Subject Us to a Number of Risks

We have significant suppliers, including licensors, and in some cases, limited or single-sources of supply, that are important to our sourcing, services, manufacturing, and any related ongoing servicing of merchandise and content. We do not have long-term arrangements with most of our suppliers to guarantee availability of merchandise, content, components, or services, particular payment terms, or the extension of credit limits. If our current suppliers were to stop selling or licensing merchandise, content, components, or services to us on acceptable terms, or delay delivery, including as a result of one or more supplier bankruptcies due to poor economic conditions, as a result of natural disasters, or for other reasons, we may be unable to procure alternatives from other suppliers in a timely and efficient manner and on acceptable terms, or at all. In addition, if our suppliers or other vendors violate applicable laws, regulations, our code of standards and responsibilities, or implement practices regarded as unethical, unsafe, or hazardous to the environment, it could damage our reputation, limit our growth, and negatively affect our operating results.

We May Be Subject to Risks Related to Government Contracts and Related Procurement Regulations

Our contracts with U.S., as well as state, local, and foreign, government entities are subject to various procurement regulations and other requirements relating to their formation, administration, and performance. We may be subject to audits and investigations relating to our government contracts, and any violations could result in various civil and criminal penalties and administrative sanctions, including termination of contract, refunding or suspending of payments, forfeiture of profits, payment of fines, and suspension or debarment from future government business. In addition, such contracts may provide for termination by the government at any time, without cause.

We May Be Subject to Product Liability Claims if People or Property Are Harmed by the Products We Sell

Some of the products we sell or manufacture may expose us to product liability claims relating to personal injury, death, or environmental or property damage, and may require product recalls or other actions. Certain third parties also sell products using our e-commerce platform that may increase our exposure to product liability claims, such as if these sellers do not have sufficient protection from such claims. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. In addition, some of our agreements with our vendors and sellers do not indemnify us from product liability.

We Are Subject to Payments-Related Risks

We accept payments using a variety of methods, including credit card, debit card, credit accounts (including promotional financing), gift cards, direct debit from a customer's bank account, consumer invoicing, physical bank check, and payment upon delivery. For existing and future payment options we offer to our customers, we may become subject to additional regulations and compliance requirements (including obligations to implement enhanced authentication processes that could result in significant costs and reduce the ease of use of our payments products), as well as fraud. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide certain Amazon-branded payment methods and payment processing services, including the processing of credit cards, debit cards, electronic checks, and promotional financing. In each case, it could disrupt our business if these companies become unwilling or unable to provide these services to us. We also offer co-branded credit card programs, which could adversely affect our operating results if terminated. We are also subject to payment card association operating rules, including data security rules, certification requirements, and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. If we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and lose our ability to accept credit and debit card payments from our customers,

process electronic funds transfers, or facilitate other types of online payments, and our business and operating

results could be adversely affected.

In addition, we provide regulated services in certain jurisdictions because we enable customers to keep account balances with us and transfer money to third parties, and because we provide services to third parties to facilitate payments on their behalf. In these jurisdictions, we may be subject to requirements for licensing, regulatory inspection, bonding and capital maintenance, the use, handling, and segregation of transferred funds, consumer disclosures, and authentication. We are also subject to or voluntarily comply with a number of other laws and regulations relating to payments, money laundering, international money transfers, privacy and information security, and electronic fund transfers. If we were found to be in violation of applicable laws or regulations, we could be subject to additional requirements and civil and criminal penalties, or forced to cease providing certain services.

We Could Be Liable for Fraudulent or Unlawful Activities of Sellers

The law relating to the liability of providers of online payment services is currently unsettled. In addition, governmental agencies could require changes in the way this business is conducted. Under our seller programs, we may be unable to prevent sellers from collecting payments, fraudulently or otherwise, when buyers never receive the products they ordered or when the products received are materially different from the sellers' descriptions. Under our A2Z Guarantee, we reimburse buyers for payments up to certain limits in these situations, and as our marketplace seller sales grow, the cost of this program will increase and could negatively affect our operating results. We also may be unable to prevent sellers on our sites or through other seller sites from selling unlawful goods, selling goods in an unlawful manner, or violating the proprietary rights of others, and could face civil or criminal liability for unlawful activities by our sellers.

Item 1B. ***Unresolved Staff Comments***

None.

Item 2. ***Properties***

As of December 31, 2015, we operated the following facilities (in thousands):

Description of Use	Leased Square Footage (1)	Owned Square Footage	Location
Office space	7,245	2,601	North America
Office space	4,843	—	International
Fulfillment, data centers, and other	69,890	1,765	North America
Fulfillment, data centers, and other	47,976	670	International
Total	129,954	5,036	

(1) For leased properties, represents the total leased space excluding sub-leased space.

Segment	Leased Square Footage (1)	Owned Square Footage (1)
North America	67,103	398
International	45,950	143
AWS	4,813	1,894
Total	117,866	2,435

(1) Segment amounts exclude corporate facilities. Shared facilities are allocated among the segments based on usage and primarily relate to facilities that hold our technology infrastructure. See Item 8 of Part II, “Financial Statements and Supplementary Data—Note 11—Segment Information.’

We own and lease our corporate headquarters in Seattle, Washington. Additionally, we own and lease corporate office, fulfillment, sortation, delivery, warehouse operations, data center, customer service, and other facilities, principally in North America, Europe, and Asia.

Item 3. ***Legal Proceedings***

See Item 8 of Part II, “Financial Statements and Supplementary Data—Note 7—Commitments and Contingencies—Leg Proceedings.”

Item 4. ***Mine Safety Disclosures***

Not applicable.

PART II

Item 5. ***Market for the Registrant's Common Stock, Related Shareholder Matters, and Issuer Purchases of Equity Securities***

Market Information

Our common stock is traded on the NASDAQ Global Select Market under the symbol "AMZN." The following table sets forth the high and low per share sale prices for our common stock for the periods indicated, as reported by the NASDAQ Global Select Market.

	High	Low
Year ended December 31, 2014		
First Quarter	$ 408.06	$ 330.88
Second Quarter	348.30	284.38
Third Quarter	364.85	304.59
Fourth Quarter	341.26	284.00
Year ended December 31, 2015		
First Quarter	$ 389.37	$ 285.25
Second Quarter	452.65	368.34
Third Quarter	580.57	425.57
Fourth Quarter	696.44	506.00

Holders

As of January 20, 2016, there were 2,578 shareholders of record of our common stock, although there is a much larger number of beneficial owners.

Dividends

We have never declared or paid cash dividends on our common stock. See Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

Recent Sales of Unregistered Securities

None.

Issuer Purchases of Equity Securities

None.

Item 6. ***Selected Consolidated Financial Data***

The following selected consolidated financial data should be read in conjunction with the consolidated financial statements and the notes thereto in Item 8 of Part II, "Financial Statements and Supplementary Data," and the information contained in Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations." Historical results are not necessarily indicative of future results.

	Year Ended December 31,				
	2015	2014	2013	2012	2011
	(in millions, except per share data)				
Statements of Operations:					
Net sales	$ 107,006	$ 88,988	$ 74,452	$ 61,093	$ 48,077
Income from operations	$ 2,233	$ 178	$ 745	$ 676	$ 862
Net income (loss)	$ 596	$ (241)	$ 274	$ (39)	$ 631
Basic earnings per share (1)	$ 1.28	$ (0.52)	$ 0.60	$ (0.09)	$ 1.39
Diluted earnings per share (1)	$ 1.25	$ (0.52)	$ 0.59	$ (0.09)	$ 1.37
Weighted-average shares used in computation of earnings per share:					
Basic	467	462	457	453	453
Diluted	477	462	465	453	461
Statements of Cash Flows:					
Net cash provided by (used in) operating activities	$ 11,920	$ 6,842	$ 5,475	$ 4,180	$ 3,903

	December 31,				
	2015	2014	2013	2012	2011
	(in millions)				
Balance Sheets:					
Total assets	$ 65,444	$ 54,505	$ 40,159	$ 32,555	$ 25,278
Total long-term obligations	$ 18,161	$ 15,675	$ 7,433	$ 5,361	$ 2,625

(1) For further discussion of earnings per share, see Item 8 of Part II, "Financial Statements and Supplementary Data—Note 1—Description of Business and Accounting Policies."

Item 7. *Management's Discussion and Analysis of Financial Condition and Results of Operations*

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. All statements other than statements of historical fact, including statements regarding guidance, industry prospects, or future results of operations or financial position, made in this Annual Report on Form 10-K are forward-looking. We use words such as anticipates, believes, expects, future, intends, and similar expressions to identify forward-looking statements. Forward-looking statements reflect management's current expectations and are inherently uncertain. Actual results could differ materially for a variety of reasons, including, among others, fluctuations in foreign exchange rates, changes in global economic conditions and customer spending, world events, the rate of growth of the Internet and online commerce, the amount that Amazon.com invests in new business opportunities and the timing of those investments, the mix of products sold to customers, the mix of net sales derived from products as compared with services, the extent to which we owe income taxes, competition, management of growth, potential fluctuations in operating results, international growth and expansion, the outcomes of legal proceedings and claims, fulfillment, sortation, delivery, and data center optimization, risks of inventory management, seasonality, the degree to which we enter into, maintain, and develop commercial agreements, acquisitions and strategic transactions, payments risks, and risks of fulfillment throughput and productivity. In addition, the current global economic climate amplifies many of these risks. These risks and uncertainties, as well as other risks and uncertainties that could cause our actual results to differ significantly from management's expectations, are described in greater detail in Item 1A of Part I, "Risk Factors."

Overview

Our primary source of revenue is the sale of a wide range of products and services to customers. The products offered on our consumer-facing websites primarily include merchandise and content we have purchased for resale from vendors and those offered by third-party sellers, and we also manufacture and sell electronic devices. Generally, we recognize gross revenue from items we sell from our inventory as product sales and recognize our net share of revenue of items sold by third-party sellers as service sales. We also offer other services such as compute, storage, and database offerings, fulfillment, publishing, digital content subscriptions, advertising, and co-branded credit cards.

Our financial focus is on long-term, sustainable growth in free cash flows[1] per share. Free cash flows are driven primarily by increasing operating income and efficiently managing working capital[2] and cash capital expenditures, including our decision to purchase or lease property and equipment. Increases in operating income primarily result from increases in sales of products and services and efficiently managing our operating costs, partially offset by investments we make in longer-term strategic initiatives. To increase sales of products and services, we focus on improving all aspects of the customer experience, including lowering prices, improving availability, offering faster delivery and performance times, increasing selection, increasing product categories and service offerings, expanding product information, improving ease of use, improving reliability, and earning customer trust. We also seek to efficiently manage shareholder dilution while maintaining the flexibility to issue shares for strategic purposes, such as financings, acquisitions, and aligning employee compensation with shareholders' interests. We utilize restricted stock units as our primary vehicle for equity compensation because we believe this compensation model aligns the long-term interests of our shareholders and employees. In measuring shareholder dilution, we include all vested and unvested stock awards outstanding, without regard to estimated forfeitures. Total shares outstanding plus outstanding stock awards were 490 million and 483 million as of December 31, 2015 and 2014.

We seek to reduce our variable costs per unit and work to leverage our fixed costs. Our variable costs include product and content costs, payment processing and related transaction costs, picking, packaging, and preparing orders for shipment, transportation, customer service support, costs necessary to run AWS, and a portion of our marketing costs. Our fixed costs include the costs necessary to run our technology infrastructure; to build, enhance, and add features to our websites and web services, our electronic devices, and digital offerings; and to build and optimize our fulfillment centers. Variable costs generally change directly with sales volume, while fixed costs generally are dependent on the timing of capacity needs, geographic expansion, category expansion, and other factors. To decrease our variable costs on a per unit basis and enable us to lower prices for customers, we seek to increase our direct sourcing, increase discounts from suppliers, and reduce defects in our processes. To minimize growth in fixed costs, we seek to improve process efficiencies and maintain a lean culture.

---

(1) See "Results of Operations—Non-GAAP Financial Measures" below for additional information on our non-GAAP free cash flows financial measures.

(2) Working capital consists of accounts receivable, inventory, and accounts payable.

Because of our model we are able to turn our inventory quickly and have a cash-generating operating cycle[3]. On average, our high inventory velocity means we generally collect from consumers before our payments to suppliers come due. Inventory turnover[4] was 8 for 2015 and 9 for 2014 and 2013. We expect variability in inventory turnover over time since it is affected by several factors, including our product mix, the mix of sales by us and by third-party sellers, our continuing focus on in-stock inventory availability and selection of product offerings, our investment in new geographies and product lines, and the extent to which we choose to utilize third-party fulfillment providers. Accounts payable days[5] were 77, 73, and 74 for 2015, 2014, and 2013. We expect some variability in accounts payable days over time since they are affected by several factors, including the mix of product sales, the mix of sales by third-party sellers, the mix of suppliers, seasonality, and changes in payment terms over time, including the effect of balancing pricing and timing of payment terms with suppliers.

We expect spending in technology and content will increase over time as we add computer scientists, designers, software and hardware engineers, and merchandising employees. Our technology and content investment and capital spending projects often support a variety of product and service offerings due to geographic expansion and the cross-functionality of our systems and operations. We seek to invest efficiently in several areas of technology and content, including AWS, and expansion of new and existing product categories and service offerings, as well as in technology infrastructure to enhance the customer experience and improve our process efficiencies. We believe that advances in technology, specifically the speed and reduced cost of processing power and the advances of wireless connectivity, will continue to improve the consumer experience on the Internet and increase its ubiquity in people's lives. To best take advantage of these continued advances in technology, we are investing in initiatives to build and deploy innovative and efficient software and electronic devices. We are also investing in AWS, which offers a broad set of global compute, storage, database, and other service offerings to developers and enterprises of all sizes.

Our financial reporting currency is the U.S. Dollar and changes in foreign exchange rates significantly affect our reported results and consolidated trends. For example, if the U.S. Dollar weakens year-over-year relative to currencies in our international locations, our consolidated net sales and operating expenses will be higher than if currencies had remained constant. Likewise, if the U.S. Dollar strengthens year-over-year relative to currencies in our international locations, our consolidated net sales and operating expenses will be lower than if currencies had remained constant. We believe that our increasing diversification beyond the U.S. economy through our growing international businesses benefits our shareholders over the long-term. We also believe it is useful to evaluate our operating results and growth rates before and after the effect of currency changes.

In addition, the remeasurement of our intercompany balances can result in significant gains and charges associated with the effect of movements in foreign currency exchange rates. Currency volatilities may continue, which may significantly impact (either positively or negatively) our reported results and consolidated trends and comparisons.

For additional information about each line item summarized above, refer to Item 8 of Part II, "Financial Statements and Supplementary Data—Note 1—Description of Business and Accounting Policies.'

Critical Accounting Judgments

The preparation of financial statements in conformity with generally accepted accounting principles of the United States ("GAAP") requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities in the consolidated financial statements and accompanying notes. The SEC has defined a company's critical accounting policies as the ones that are most important to the portrayal of the company's financial condition and results of operations, and which require the company to make its most difficult and subjective judgments, often as a result of the need to make estimates of matters that are inherently uncertain. Based on this definition, we have identified the critical accounting policies and judgments addressed below. We also have other key accounting policies, which involve the use of estimates, judgments, and assumptions that are significant to understanding our results. For additional information, see Item 8 of Part II, "Financial Statements and Supplementary Data—Note 1—Description of Business and Accounting Policies." Although we believe that our estimates, assumptions, and judgments are reasonable, they are based upon information presently available. Actual results may differ significantly from these estimates under different assumptions, judgments, or conditions.

(3) The operating cycle is the number of days of sales in inventory plus the number of days of sales in accounts receivable minus accounts payable days.

(4) Inventory turnover is the quotient of trailing twelve month cost of sales to average inventory over five quarter ends.
(5) Accounts payable days, calculated as the quotient of accounts payable to current quarter cost of sales, multiplied by the number of days in the current quarter.

Inventories

Inventories, consisting of products available for sale, are primarily accounted for using the first-in first-out ("FIFO") method, and are valued at the lower of cost or market value. This valuation requires us to make judgments, based on currently-available information, about the likely method of disposition, such as through sales to individual customers, returns to product vendors, or liquidations, and expected recoverable values of each disposition category. These assumptions about future disposition of inventory are inherently uncertain and changes in our estimates and assumptions may cause us to realize material write-downs in the future. As a measure of sensitivity, for every 1% of additional inventory valuation allowance as of December 31, 2015, we would have recorded an additional cost of sales of approximately $115 million.

In addition, we enter into supplier commitments for certain electronic device components. These commitments are based on forecasted customer demand. If we reduce these commitments, we may incur additional costs.

Goodwill

We evaluate goodwill for impairment annually or more frequently when an event occurs or circumstances change that indicate the carrying value may not be recoverable. During the second quarter of 2015, we changed the measurement date of our annual goodwill impairment test from October 1 to April 1. In testing for goodwill impairment, we may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If our qualitative assessment indicates that goodwill impairment is more likely than not, we perform a two-step impairment test. We test goodwill for impairment under the two-step impairment test by first comparing the book value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the book value or qualitative factors indicate that it is more likely than not that goodwill is impaired, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimate the fair value of the reporting units using discounted cash flows. Forecasts of future cash flows are based on our best estimate of future net sales and operating expenses, based primarily on expected category expansion, pricing, market segment share, and general economic conditions. Certain estimates of discounted cash flows involve businesses and geographies with limited financial history and developing revenue models. Changes in these forecasts could significantly change the amount of impairment recorded, if any.

During the year, management monitored the actual performance of the business relative to the fair value assumptions used during our annual goodwill impairment test. For the periods presented, no triggering events were identified that required an interim impairment test. As a measure of sensitivity, a 10% decrease in the fair value of any of our reporting units as of April 1, 2015, would have had no impact on the carrying value of our goodwill.

Financial and credit market volatility directly impacts the fair value measurement through our weighted-average cost of capital that we use to determine a discount rate and through our stock price that we use to determine our market capitalization. During times of volatility, significant judgment must be applied to determine whether credit or stock price changes are short-term in nature or a longer-term trend. We have not made any significant changes to the accounting methodology used to evaluate goodwill for impairment. Changes in our estimated future cash flows and asset fair values may cause us to realize material impairment charges in the future. As a measure of sensitivity, a prolonged 20% decrease from our December 31, 2015 closing stock price would not be an indicator of possible impairment.

Stock-Based Compensation

We measure compensation cost for stock awards at fair value and recognize it as compensation expense over the service period for awards expected to vest. The fair value of restricted stock units is determined based on the number of shares granted and the quoted price of our common stock and the fair value of stock options is estimated on the date of grant using a Black-Scholes model. The estimated number of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including employee level, economic conditions, time remaining to vest, and historical forfeiture experience. We update our estimated forfeiture rate quarterly. We have not made any significant changes to the accounting methodology used to evaluate stock-based compensation. Changes in our estimates and assumptions may cause us to realize material changes in stock-based compensation expense in the future. As a measure of sensitivity, a 1% change to our estimated forfeiture rate would have had an approximately $46 million impact on our 2015 operating income. Our estimated forfeiture rates as of December 31, 2015 and 2014, were 28% and 27%.

We utilize the accelerated method, rather than the straight-line method, for recognizing compensation expense. For example, over 50% of the compensation cost related to an award vesting ratably over four years is expensed in the first year. If

forfeited early in the life of an award, the compensation expense adjustment is much greater under an accelerated method than under a straight-line method.

Income Taxes

We are subject to income taxes in the U.S. (federal and state) and numerous foreign jurisdictions. Tax laws, regulations, and administrative practices in various jurisdictions may be subject to significant change due to economic, political, and other conditions, and significant judgment is required in evaluating and estimating our provision and accruals for these taxes. There are many transactions that occur during the ordinary course of business for which the ultimate tax determination is uncertain. Our effective tax rates could be adversely affected by earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates, losses incurred in jurisdictions for which we are not able to realize the related tax benefit, changes in foreign currency exchange rates, entry into new businesses and geographies and changes to our existing businesses, acquisitions (including integrations) and investments, changes in our deferred tax assets and liabilities and their valuation, and changes in the relevant tax, accounting, and other laws, regulations, administrative practices, principles, and interpretations, including fundamental changes to the tax laws applicable to corporate multinationals. The U.S., the European Union and its member states, and a number of other countries are actively pursuing changes in this regard.

Except as required under U.S. tax laws, we do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed since we intend to invest such undistributed earnings indefinitely outside of the U.S. If our intent changes or if these funds are needed for our U.S. operations, we would be required to accrue or pay U.S. taxes on some or all of these undistributed earnings and our effective tax rate would be adversely affected. We are also currently subject to audit in various jurisdictions, and these jurisdictions may assess additional income tax liabilities against us. Developments in an audit, litigation, or the relevant laws, regulations, administrative practices, principles, and interpretations could have a material effect on our operating results or cash flows in the period or periods for which that development occurs, as well as for prior and subsequent periods. For instance, the IRS is seeking to increase our U.S. taxable income related to transfer pricing with our foreign subsidiaries for transactions undertaken in 2005 and 2006, and we are currently contesting the matter in U.S. Tax Court. In addition to the risk of additional tax for 2005 and 2006 transactions, if this litigation is adversely determined or if the IRS were to seek transfer pricing adjustments of a similar nature for transactions in subsequent years, we could be subject to significant additional tax liabilities. In addition, in October 2014, the European Commission opened a formal investigation to examine whether decisions by the tax authorities in Luxembourg with regard to the corporate income tax paid by certain of our subsidiaries comply with European Union rules on state aid. If this matter is adversely resolved, Luxembourg may be required to assess, and we may be required to pay, additional amounts with respect to current and prior periods and our taxes in the future could increase. Although we believe our tax estimates are reasonable, the final outcome of tax audits, investigations, and any related litigation could be materially different from our historical income tax provisions and accruals.

Recent Accounting Pronouncements

See Item 8 of Part II, “Financial Statements and Supplementary Data—Note 1—Description of Business and Accounting Policies—Recent Accounting Pronouncements.”

Liquidity and Capital Resources

Cash flow information is as follows (in millions):

	Year Ended December 31,		
	2015	2014	2013
Cash provided by (used in):			
Operating activities	$ 11,920	$ 6,842	$ 5,475
Investing activities	(6,450)	(5,065)	(4,276)
Financing activities	(3,763)	4,432	(539)

Our principal sources of liquidity are cash flows generated from operations and our cash, cash equivalents, and marketable securities balances, which, at fair value, were $19.8 billion, $17.4 billion, and $12.4 billion as of December 31, 2015, 2014, and 2013. Amounts held in foreign currencies were $7.3 billion, $5.4 billion, and $5.6 billion as of December 31, 2015, 2014, and 2013, and were primarily Euros, Japanese Yen, and British Pounds.

Cash provided by operating activities was $11.9 billion, $6.8 billion, and $5.5 billion in 2015, 2014, and 2013. Our operating cash flows result primarily from cash received from our consumer, seller, developer, enterprise, and content creator customers, advertising agreements, and our co-branded credit card agreements, offset by cash payments we make for products and services, employee compensation (less amounts capitalized related to internal-use software that are reflected as cash used in investing activities), payment processing and related transaction costs, operating leases, and interest payments on our long-term obligations. Cash received from our customers and other activities generally corresponds to our net sales. Because consumers primarily use credit cards to buy from us, our receivables from consumers settle quickly. The increase in operating cash flow in 2015, compared to the comparable prior year period, was primarily due to the increase in net income (loss), excluding non-cash charges to net income (loss) such as depreciation, amortization, and stock-based compensation, and changes in working capital. The increase in operating cash flow in 2014, compared to the comparable prior year period, was primarily due to the increase in non-cash charges to net income (loss), including depreciation, amortization, and stock-based compensation, partially offset by changes in working capital.

Cash provided by (used in) investing activities corresponds with cash capital expenditures, including leasehold improvements, internal-use software and website development costs, cash outlays for acquisitions, investments in other companies and intellectual property rights, and purchases, sales, and maturities of marketable securities. Cash provided by (used in) investing activities was $(6.5) billion, $(5.1) billion, and $(4.3) billion in 2015, 2014, and 2013, with the variability caused primarily by our decision to purchase or lease property and equipment, purchases, maturities, and sales of marketable securities, and changes in cash paid for acquisitions. Cash capital expenditures were $4.6 billion, $4.9 billion, and $3.4 billion in 2015, 2014, and 2013. This primarily reflects additional investments in support of continued business growth due to investments in technology infrastructure (the majority of which is to support AWS), and additional capacity to support our fulfillment operations, during all three periods. Capital expenditures included $528 million, $537 million, and $493 million for internal-use software and website development in 2015, 2014, and 2013. Stock-based compensation capitalized for internal-use software and website development costs does not affect cash flows. In 2015, 2014, and 2013, we made cash payments, net of acquired cash, related to acquisition and other investment activity of $795 million, $979 million, and $312 million.

Cash provided by (used in) financing activities was $(3.8) billion, $4.4 billion, and $(539) million in 2015, 2014, and 2013. Cash outflows from financing activities result from principal repayments on obligations related to capital leases and finance leases and repayments of long-term debt and other. Principal repayments on obligations related to capital leases and finance leases and repayments of long-term debt and other were $4.2 billion, $1.9 billion, and $1.0 billion in 2015, 2014, and 2013. The increase in 2015 primarily reflects additional repayments on capital leases as well as a $750 million repayment on our unsecured senior notes. Property and equipment acquired under capital leases were $4.7 billion, $4.0 billion, and $1.9 billion in 2015, 2014, and 2013, with the increases reflecting additional investments in support of continued business growth primarily due to investments in technology infrastructure for AWS. We expect this trend toward additional investment to continue over time. Cash inflows from financing activities primarily result from proceeds from long-term debt and other and tax benefits relating to excess stock-based compensation deductions. Proceeds from long-term debt and other were $353 million, $6.4 billion, and $394 million in 2015, 2014, and 2013. During 2014, cash inflows from financing activities consisted primarily of net proceeds from the issuance of $6.0 billion of senior nonconvertible unsecured debt in five tranches maturing in 2019 through 2044. See Item 8 of Part II, “Financial Statements and Supplementary Data—Note 5—Long-Term Debt” for additiona discussion of the notes. Tax benefits relating to excess stock-based compensation deductions are presented as financing cash

flows. Cash inflows from tax benefits related to stock-based compensation deductions were $119 million, $6 million, and $78 million in 2015, 2014, and 2013.

We had no borrowings outstanding under our $2.0 billion Credit Agreement as of December 31, 2015. See Item 8 of Part II, “Financial Statements and Supplementary Data—Note 5—Long-Term Debt” for additional information.

In 2015, 2014, and 2013, we recorded net tax provisions of $950 million, $167 million, and $161 million. Except as required under U.S. tax laws, we do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed since we intend to invest such undistributed earnings indefinitely outside of the U.S. If our intent changes or if these funds are needed for our U.S. operations, we would be required to accrue or pay U.S. taxes on some or all of these undistributed earnings, and our effective tax rate would be adversely affected. As of December 31, 2015, cash, cash equivalents, and marketable securities held by foreign subsidiaries were $5.8 billion, which included undistributed earnings of foreign subsidiaries indefinitely invested outside of the U.S. of $1.5 billion. We have tax benefits relating to excess stock-based compensation deductions and accelerated depreciation deductions that are being utilized to reduce our U.S. taxable income. In December 2015, U.S. legislation was enacted that extended accelerated depreciation deductions on qualifying property through 2019. Cash taxes paid (net of refunds) were $273 million, $177 million, and $169 million for 2015, 2014, and 2013. As of December 31, 2015, our federal net operating loss carryforward was approximately $1.1 billion and we had approximately $622 million of federal tax credits potentially available to offset future tax liabilities. Our federal tax credits are primarily related to the U.S. federal research and development credit, which was made permanent in 2015. As we utilize our federal net operating losses and tax credits, we expect cash paid for taxes to significantly increase. We endeavor to manage our global taxes on a cash basis, rather than on a financial reporting basis.

Our liquidity is also affected by restricted cash balances that are pledged as collateral for standby and trade letters of credit, guarantees, debt, and real estate leases. To the extent we process payments for third-party sellers or offer certain types of stored value to our customers, some jurisdictions may restrict our use of those funds. These restrictions would result in the reclassification of a portion of our cash and cash equivalents from “Cash and cash equivalents” to restricted cash, which is classified within “Accounts receivable, net and other” on our consolidated balance sheets. As of December 31, 2015 and 2014, restricted cash, cash equivalents, and marketable securities were $285 million and $450 million. See Item 8 of Part II, “Financial Statements and Supplementary Data—Note 7—Commitments and Contingencies” for additional discussion of our principal contractual commitments, as well as our pledged assets. Purchase obligations and open purchase orders, consisting of inventory and significant non-inventory commitments, were $6.2 billion as of December 31, 2015. Purchase obligations and open purchase orders are generally cancellable in full or in part through the contractual provisions.

On average, our high inventory velocity means we generally collect from consumers before our payments to suppliers come due. Inventory turnover was 8 for 2015 and 9 for 2014 and 2013. We expect variability in inventory turnover over time since it is affected by several factors, including our product mix, the mix of sales by us and by third-party sellers, our continuing focus on in-stock inventory availability and selection of product offerings, our investment in new geographies and product lines, and the extent to which we choose to utilize third-party fulfillment providers.

We believe that cash flows generated from operations and our cash, cash equivalents, and marketable securities balances, as well as borrowing available under our credit agreements, will be sufficient to meet our anticipated operating cash needs for at least the next 12 months. However, any projections of future cash needs and cash flows are subject to substantial uncertainty. See Item 1A of Part I, “Risk Factors.” We continually evaluate opportunities to sell additional equity or debt securities, obtain credit facilities, obtain capital, finance, and operating lease arrangements, repurchase common stock, pay dividends, or repurchase, refinance, or otherwise restructure our debt for strategic reasons or to further strengthen our financial position.

The sale of additional equity or convertible debt securities would likely be dilutive to our shareholders. In addition, we will, from time to time, consider the acquisition of, or investment in, complementary businesses, products, services, capital infrastructure, and technologies, which might affect our liquidity requirements or cause us to secure additional financing, or issue additional equity or debt securities. There can be no assurance that additional lines-of-credit or financing instruments will be available in amounts or on terms acceptable to us, if at all.

Results of Operations

Beginning in the first quarter of 2015, we changed our reportable segments to North America, International, and AWS. These segments reflect the way the Company evaluates its business performance and manages its operations. See Item 1 of Part 1,“Financial Statements—Note 11—Segment Information.'

Net Sales

Net sales include product and service sales. Product sales represent revenue from the sale of products and related shipping fees and digital media content where we record revenue gross. Service sales represent third-party seller fees earned (including commissions) and related shipping fees, AWS sales, digital content subscriptions, advertising services, and our co-branded credit card agreements. Amazon Prime membership fees are allocated between product sales and service sales and amortized over the life of the membership according to the estimated delivery of services. Net sales information is as follows (in millions):

	Year Ended December 31,		
	2015	2014	2013
Net Sales:			
North America	$ 63,708	$ 50,834	$ 41,410
International	35,418	33,510	29,934
AWS	7,880	4,644	3,108
Total consolidated	$ 107,006	$ 88,988	$ 74,452
Year-over-year Percentage Growth:			
North America	25%	23%	26%
International	6	12	14
AWS	70	49	69
Total consolidated	20	20	22
Year-over-year Percentage Growth, excluding the effect of foreign exchange rates:			
North America	26%	23%	26%
International	21	14	19
AWS	70	49	69
Total consolidated	26	20	24
Net Sales Mix:			
North America	60%	57%	56%
International	33	38	40
AWS	7	5	4
Total consolidated	100%	100%	100%

Sales increased 20%, 20%, and 22% in 2015, 2014, and 2013, compared to the comparable prior year periods. Changes in foreign currency exchange rates impacted net sales by $(5.2) billion, $(636) million, and $(1.3) billion for 2015, 2014, and 2013. For a discussion of the effect on sales growth of foreign exchange rates, see “Effect of Foreign Exchange Rates” below.

North America sales increased 25%, 23%, and 26% in 2015, 2014, and 2013, compared to the comparable prior year periods. The sales growth in each year primarily reflects increased unit sales, including sales by marketplace sellers. Increased unit sales were driven largely by our continued efforts to reduce prices for our customers, including from our shipping offers, sales in faster growing categories such as electronics and other general merchandise, increased in-stock inventory availability, and increased selection of product offerings.

International sales increased 6%, 12%, and 14% in 2015, 2014, and 2013, compared to the comparable prior year periods. The sales growth in each year primarily reflects increased unit sales, including sales by marketplace sellers, offset by the

unfavorable effect of foreign exchange rates. Changes in foreign currency exchange rates impacted International net sales by $(5.0) billion, $(580) million, and $(1.3) billion in 2015, 2014, and 2013. Increased unit sales were driven largely by our continued efforts to reduce prices for our customers, including from our shipping offers, sales in faster growing categories such

as electronics and other general merchandise, increased in-stock inventory availability, and increased selection of product offerings.

AWS sales increased 70%, 49%, and 69% in 2015, 2014, and 2013, compared to the comparable prior year periods. The sales growth primarily reflects increased customer usage, partially offset by pricing changes. Pricing changes were driven largely by our continued efforts to reduce prices for our customers.

Segment Operating Income (Loss)

Segment operating income (loss) is as follows (in millions):

	Year Ended December 31,		
	2015	2014	2013
Segment Operating Income (Loss)			
North America	$ 2,751	$ 1,292	$ 1,166
International	(91)	(144)	154
AWS	1,863	660	673

The increase in North America segment operating income in absolute dollars in 2015, 2014, and 2013, compared to the comparable prior year periods, is primarily due to increased unit sales, including sales by marketplace sellers, partially offset by increased levels of operating expenses to expand our fulfillment capacity and spending on technology infrastructure. There was a favorable impact from foreign exchange rates of $30 million, $0, and $7 million for 2015, 2014, and 2013.

The decrease in International segment operating loss in absolute dollars in 2015, compared to the comparable prior year period, is primarily due to increased unit sales, including sales by marketplace sellers, partially offset by increased levels of operating expenses to expand our fulfillment capacity, spending on technology infrastructure and marketing efforts, and the unfavorable impact from foreign exchange rates. The unfavorable impact from foreign exchange rates was $278 million, $27 million, and $70 million for 2015, 2014, and 2013. The decrease in International segment operating income (loss) in absolute dollars in 2014, compared to the comparable prior year period, is primarily due to increased levels of operating expenses to expand our fulfillment capacity and spending on technology infrastructure and marketing efforts, partially offset by increased unit sales, including sales by marketplace sellers.

The increase in AWS segment operating income in absolute dollars in 2015, compared to the comparable prior year period, is primarily due to increased customer usage and cost structure productivity, partially offset by pricing changes and increased spending on technology infrastructure, which was primarily driven by additional investments to support the business growth. The decrease in AWS segment operating income in absolute dollars in 2014, compared to the comparable prior year period, is primarily due to pricing changes and increased spending on technology infrastructure, which was primarily driven by increased usage. There was a favorable impact from foreign exchange rates of $264 million, $41 million, and $38 million for 2015, 2014, and 2013.

Supplemental Information

Supplemental information about outbound shipping results for our North America and International segments is as follows (in millions):

	Year Ended December 31,		
	2015	2014	2013
Outbound Shipping Activity:			
Shipping revenue (1)(2)(3)	$ 6,520	$ 4,486	$ 3,097
Shipping costs (4)	(11,539)	(8,709)	(6,635)
Net shipping cost	$ (5,019)	$ (4,223)	$ (3,538)
Year-over-year Percentage Growth:			
Shipping revenue	45 %	45 %	36 %
Shipping costs	32	31	29
Net shipping cost	19	19	24
Percent of Net Sales (5):			
Shipping revenue	6.5 %	5.3 %	4.3 %
Shipping costs	(11.6)	(10.3)	(9.3)
Net shipping cost	(5.1)%	(5.0)%	(5.0)%

(1) Excludes amounts charged on shipping activities by third-party sellers where we do not provide the fulfillment service.
(2) Includes a portion of amounts earned from Amazon Prime memberships.
(3) Includes amounts earned from Fulfillment by Amazon programs related to shipping services.
(4) Includes sortation and delivery center costs.
(5) Includes North America and International segment net sales.

We expect our cost of shipping to continue to increase to the extent our customers accept and use our shipping offers at an increasing rate, our product mix shifts to the electronics and other general merchandise category, we reduce shipping rates, we use more expensive shipping methods, and we offer additional services. We seek to mitigate costs of shipping over time in part through achieving higher sales volumes, optimizing placement of fulfillment centers, negotiating better terms with our suppliers, and achieving better operating efficiencies. We believe that offering low prices to our customers is fundamental to our future success, and one way we offer lower prices is through shipping offers.

We have aggregated our North America and International segments' products and services into groups of similar products and services and provided the supplemental disclosure of net sales (in millions) below. We evaluate whether additional disclosure is appropriate when a product or service category begins to approach a significant level of net sales. For the periods presented, no individual product or service represented more than 10% of net sales.

	Year Ended December 31,		
	2015	2014	2013
Net Sales:			
North America			
Media	$ 12,483	$ 11,567	$ 10,809
Electronics and other general merchandise	50,401	38,517	29,985
Other (1)	824	750	616
Total North America	$ 63,708	$ 50,834	$ 41,410
International			
Media	$ 10,026	$ 10,938	$ 10,907
Electronics and other general merchandise	25,196	22,369	18,817
Other (1)	196	203	210
Total International	$ 35,418	$ 33,510	$ 29,934
Year-over-year Percentage Growth:			
North America			
Media	8 %	7 %	18%
Electronics and other general merchandise	31	28	29
Other	10	22	20
Total North America	25	23	26
International			
Media	(8)%	—%	1%
Electronics and other general merchandise	13	19	23
Other	(3)	(3)	22
Total International	6	12	14
Year-over-year Percentage Growth, excluding the effect of foreign exchange rates:			
North America			
Media	8 %	7 %	18%
Electronics and other general merchandise	31	29	29
Other	10	22	20
Total North America	26	23	26
International			
Media	4 %	2 %	7%
Electronics and other general merchandise	29	21	27
Other	10	(3)	26
Total International	21	14	19

(1) Includes sales from non-retail activities, such as certain advertising services and our co-branded credit card agreements.

Operating Expenses

Information about operating expenses with and without stock-based compensation is as follows (in millions):

	Year Ended December 31, 2015			Year Ended December 31, 2014			Year Ended December 31, 2013		
	As Reported	Stock-Based Compensation	Net	As Reported	Stock-Based Compensation	Net	As Reported	Stock-Based Compensation	Net
Operating Expenses:									
Cost of sales	$ 71,651	$ —	$ 71,651	$ 62,752	$ —	$ 62,752	$ 54,181	$ —	$ 54,181
Fulfillment	13,410	(482)	12,928	10,766	(375)	10,391	8,585	(294)	8,291
Marketing	5,254	(190)	5,064	4,332	(125)	4,207	3,133	(88)	3,045
Technology and content	12,540	(1,224)	11,316	9,275	(804)	8,471	6,565	(603)	5,962
General and administrative	1,747	(223)	1,524	1,552	(193)	1,359	1,129	(149)	980
Other operating expense (income), net	171	—	171	133	—	133	114	—	114
Total operating expenses	$ 104,773	$ (2,119)	$ 102,654	$ 88,810	$ (1,497)	$ 87,313	$ 73,707	$ (1,134)	$ 72,573
Year-over-year Percentage Growth:									
Fulfillment	25%		24%	25%		25%	34%		34%
Marketing	21		20	38		38	30		30
Technology and content	35		34	41		42	44		44
General and administrative	13		12	37		39	26		27
Percent of Net Sales:									
Fulfillment	12.5%		12.1%	12.1%		11.7%	11.5%		11.1%
Marketing	4.9		4.7	4.9		4.7	4.2		4.1
Technology and content	11.7		10.6	10.4		9.5	8.8		8.0
General and administrative	1.6		1.4	1.7		1.5	1.5		1.3

Operating expenses without stock-based compensation are non-GAAP financial measures. See “Non-GAAP Financial Measures” and Item 8 of Part II, “Financial Statements and Supplementary Data—Note 1—Description of Business and Accounting Policies—Stock-Based Compensation.”

In 2014, we recorded charges estimated at $170 million primarily related to Fire phone inventory valuation and supplier commitment costs, the majority of which was included in the North America segment.

Cost of Sales

Cost of sales primarily consists of the purchase price of consumer products, digital media content costs where we record revenue gross, including Prime Video and Prime Music, packaging supplies, sortation and delivery centers and related equipment costs, and inbound and outbound shipping costs, including where we are the transportation service provider. Shipping costs to receive products from our suppliers are included in our inventory and recognized as cost of sales upon sale of products to our customers.

The increase in cost of sales in absolute dollars in 2015, 2014, and 2013, compared to the comparable prior year periods, is primarily due to increased product and shipping costs resulting from increased sales. The increase in 2014 was also impacted by the expansion of digital offerings and Fire phone inventory valuation and supplier commitment costs.

Costs to operate our AWS segment are primarily classified as “Technology and content” as we leverage a shared infrastructure that supports both our internal technology requirements and external sales to AWS customers.

Fulfillment

Fulfillment costs primarily consist of those costs incurred in operating and staffing our North America and International fulfillment and customer service centers and payment processing costs. While AWS payment processing and related transaction costs are included in fulfillment, AWS costs are primarily classified as “Technology and content.” Fulfillment costs as a percentage of net sales may vary due to several factors, such as payment processing and related transaction costs, our level of productivity and accuracy, changes in volume, size, and weight of units received and fulfilled, timing of fulfillment capacity expansion, the extent we utilize fulfillment services provided by third parties, mix of products and services sold, and our ability to affect customer service contacts per unit by implementing improvements in our operations and enhancements to our customer self-service features. Additionally, because payment processing and fulfillment costs associated with seller transactions are based on the gross purchase price of underlying transactions, and payment processing and related transaction

and fulfillment costs are higher as a percentage of sales versus our retail sales, sales by our sellers have higher fulfillment costs as a percent of net sales.

The increase in fulfillment costs in absolute dollars in 2015, 2014, and 2013, compared to the comparable prior year periods, is primarily due to variable costs corresponding with increased physical and digital product and service sales volume, inventory levels, and sales mix; costs from expanding fulfillment capacity; and payment processing and related transaction costs.

We seek to expand our fulfillment capacity to accommodate a greater selection and in-stock inventory levels and to meet anticipated shipment volumes from sales of our own products as well as sales by third parties for which we provide the fulfillment services. We regularly evaluate our facility requirements.

Marketing

We direct customers to our websites primarily through a number of targeted online marketing channels, such as our Associates program, sponsored search, portal advertising, email marketing campaigns, direct sales, and other initiatives. Our marketing expenses are largely variable, based on growth in sales and changes in rates. To the extent there is increased or decreased competition for these traffic sources, or to the extent our mix of these channels shifts, we would expect to see a corresponding change in our marketing expense.

The increase in marketing costs in absolute dollars in 2015, 2014, and 2013, compared to the comparable prior year periods, is primarily due to increased spending on online marketing channels, as well as payroll and related expenses.

While costs associated with Amazon Prime memberships and other shipping offers are not included in marketing expense, we view these offers as effective worldwide marketing tools, and intend to continue offering them indefinitely.

Technology and Content

Technology costs consist principally of research and development activities including payroll and related expenses for employees involved in application, production, maintenance, operation, and platform development for new and existing products and services, as well as AWS and other technology infrastructure expenses. Content costs consist principally of payroll and related expenses for employees involved in category expansion, editorial content, buying, and merchandising selection. Digital media content costs related to revenue recorded gross, including Prime Video, are included in cost of sales.

We seek to invest efficiently in several areas of technology and content so we may continue to enhance the customer experience and improve our process efficiency through rapid technology developments while operating at an ever increasing scale. Our technology and content investment and capital spending projects often support a variety of product and service offerings due to geographic expansion and the cross-functionality of our systems and operations. We expect spending in technology and content to increase over time as we continue to add employees and technology infrastructure. The increase in technology and content costs in absolute dollars in 2015, 2014, and 2013, compared to comparable prior year periods, is primarily due to increased spending on technology infrastructure principally allocated to our AWS segment, and an increase in payroll and related costs associated with expanding our products and services.

Technology infrastructure costs consist of servers, networking equipment, and data center related depreciation, rent, utilities, and payroll expenses. These costs are allocated to segments based on usage. In 2015, 2014, and 2013, we expanded our technology infrastructure principally by increasing our capacity for AWS service offerings globally, compared to the comparable prior year periods. Additionally, the costs associated with operating and maintaining our expanded infrastructure have increased over time, corresponding with increased usage. We expect these trends to continue over time as we invest in technology infrastructure to support increased usage.

The increase in payroll and related costs is primarily due to the expansion of new and existing product categories and service offerings, including AWS, and initiatives to expand our ecosystem of products and services.

For 2015, 2014, and 2013, we capitalized $642 million (including $114 million of stock-based compensation), $641 million (including $104 million of stock-based compensation), and $581 million (including $87 million of stock-based compensation) of costs associated with internal-use software and website development. Amortization of previously capitalized amounts was $635 million, $559 million, and $451 million for 2015, 2014, and 2013.

General and Administrative

The increase in general and administrative costs in absolute dollars in 2015, compared to the comparable prior year period, is primarily due to increases in payroll and related expenses. The increase in general and administrative costs in absolute

dollars in 2014, compared to the comparable prior year period, is primarily due to increases in payroll and related expenses and professional service fees.

Stock-Based Compensation

Stock-based compensation was $2.1 billion, $1.5 billion, and $1.1 billion during 2015, 2014, and 2013. The increase in 2015, 2014, and 2013, compared to the comparable prior year periods, is primarily due to an increase in the number of stock-based compensation awards granted to existing and new employees.

Other Operating Expense (Income), Net

Other operating expense (income), net was $171 million, $133 million, and $114 million during 2015, 2014, and 2013, and was primarily related to the amortization of intangible assets.

Income from Operations

For the reasons discussed above, income from operations increased to $2.2 billion in 2015, from $178 million in 2014 and $745 million in 2013.

We believe that income from operations is a more meaningful measure than gross profit and gross margin due to the diversity of our product categories and services.

Interest Income and Expense

Our interest income was $50 million, $39 million, and $38 million during 2015, 2014, and 2013. We generally invest our excess cash in investment grade short- to intermediate-term fixed income securities and AAA-rated money market funds. Our interest income corresponds with the average balance of invested funds based on the prevailing rates, which vary depending on the geographies and currencies in which they are invested.

Interest expense was $459 million, $210 million, and $141 million in 2015, 2014, and 2013. The increase is primarily due to increases in our long-term debt, and capital and finance lease arrangements.

Our long-term debt was $8.2 billion and $8.3 billion as of December 31, 2015 and 2014. Our other long-term liabilities were $9.9 billion and $7.4 billion as of December 31, 2015 and 2014. See Item 8 of Part II, “Financial Statements and Supplementary Data—Note 5—Long-Term Debt and Note 6—Other Long-Term Liabilities” for additional informatio

Other Income (Expense), Net

Other income (expense), net was $(256) million, $(118) million, and $(136) million during 2015, 2014, and 2013. The primary component of other income (expense), net is related to foreign-currency gains (losses).

Income Taxes

Our effective tax rate is subject to significant variation due to several factors, including variability in our pre-tax and taxable income and loss and the mix of jurisdictions to which they relate, changes in how we do business, acquisitions (including integrations) and investments, audit-related developments, foreign currency gains (losses), changes in law, regulations, and administrative practices, and relative changes of expenses or losses for which tax benefits are not recognized. Additionally, our effective tax rate can be more or less volatile based on the amount of pre-tax income or loss. For example, the impact of discrete items and non-deductible expenses on our effective tax rate is greater when our pre-tax income is lower.

We recorded a provision for income taxes of $950 million, $167 million, and $161 million in 2015, 2014, and 2013. Our provision for income taxes in 2015 was higher than in 2014 primarily due to an increase in U.S. pre-tax income and increased losses in certain foreign subsidiaries for which we may not realize a tax benefit. Losses for which we may not realize a related tax benefit, primarily due to losses of foreign subsidiaries, reduce our pre-tax income without a corresponding reduction in our tax expense, and therefore increase our effective tax rate. We have recorded valuation allowances against the deferred tax assets associated with losses for which we may not realize a related tax benefit. We generated income in lower tax jurisdictions primarily related to our European operations, which are headquartered in Luxembourg.

Our provision for income taxes in 2014 was higher than in 2013 primarily due to the increased losses in certain foreign subsidiaries for which we may not realize a tax benefit and audit-related developments, partially offset by the favorable impact of earnings in lower tax rate jurisdictions. Losses for which we may not realize a related tax benefit were primarily generated by our foreign subsidiaries. Income earned in lower tax jurisdictions was primarily related to our European operations.

We have tax benefits relating to excess stock-based compensation deductions and accelerated depreciation deductions that are being utilized to reduce our U.S. taxable income. In December 2015, U.S. legislation was enacted that extended accelerated

depreciation deductions on qualifying property through 2019 and made permanent the U.S. federal research and development credit. As of December 31, 2015, our federal net operating loss carryforward was approximately $1.1 billion and we had

approximately $622 million of federal tax credits potentially available to offset future tax liabilities. Our federal tax credits are primarily related to the U.S. federal research and development credit, which was made permanent in 2015.

See Item 8 of Part II, “Financial Statements and Supplementary Data—Note 10—Income Taxes” for additiona information.

Equity-Method Investment Activity, Net of Tax

Equity-method investment activity, net of tax, was $(22) million, $37 million, and $(71) million in 2015, 2014, and 2013, and is primarily related to our investment in LivingSocial. The primary component of this activity during 2014 was our share of a gain recorded by LivingSocial related to the sale of its Korean operations. This gain was partially offset by operating losses incurred by LivingSocial during the period.

Effect of Foreign Exchange Rates

The effect on our income from operations from changes in foreign exchange rates versus the U.S. Dollar is as follows (in millions):

	Year Ended December 31, 2015			Year Ended December 31, 2014			Year Ended December 31, 2013		
	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported	At Prior Year Rates (1)	Exchange Rate Effect (2)	As Reported
Net sales	$112,173	$ (5,167)	$107,006	$ 89,624	$ (636)	$ 88,988	$ 75,736	$ (1,284)	$ 74,452
Operating expenses	109,956	(5,183)	104,773	89,466	(656)	88,810	74,962	(1,255)	73,707
Income from operations	2,217	16	2,233	158	20	178	774	(29)	745

(1) Represents the outcome that would have resulted had foreign exchange rates in the reported period been the same as those in effect in the comparable prior year period for operating results.
(2) Represents the increase or decrease in reported amounts resulting from changes in foreign exchange rates from those in effect in the comparable prior year period for operating results.

Non-GAAP Financial Measures

Regulation G, Conditions for Use of Non-GAAP Financial Measures, and other SEC regulations define and prescribe the conditions for use of certain non-GAAP financial information. Our measures of free cash flows, operating expenses with and without stock-based compensation, and the effect of foreign exchange rates on our consolidated statements of operations, meet the definition of non-GAAP financial measures.

We provide multiple measures of free cash flows because we believe these measures provide additional perspective on the impact of acquiring property and equipment with cash and through capital and finance leases.

Free Cash Flow

Free cash flow is cash flow from operations reduced by “Purchases of property and equipment, including internal-use software and website development, net” which is included in cash flow from investing activities. The following is a reconciliation of free cash flow to the most comparable GAAP cash flow measure, “Net cash provided by (used in) operating activities,” for 2015, 2014, and 2013 (in millions):

	Year Ended December 31,		
	2015	2014	2013
Net cash provided by (used in) operating activities	$ 11,920	$ 6,842	$ 5,475
Purchases of property and equipment, including internal-use software and website development, net	(4,589)	(4,893)	(3,444)
Free cash flow	$ 7,331	$ 1,949	$ 2,031
Net cash provided by (used in) investing activities	$ (6,450)	$ (5,065)	$ (4,276)

COEX
8.186

Net cash provided by (used in) financing activities	$ (3,763)	$ 4,432	$ (539)

Free Cash Flow Less Lease Principal Repayments

Free cash flow less lease principal repayments is free cash flow reduced by "Principal repayments of capital lease obligations," and "Principal repayments of finance lease obligations," which are included in cash flow from financing activities. Free cash flow less lease principal repayments approximates the actual payments of cash for our capital and finance leases. The following is a reconciliation of free cash flow less lease principal repayments to the most comparable GAAP cash flow measure, "Net cash provided by (used in) operating activities," for 2015, 2014, and 2013 (in millions):

	Year Ended December 31,		
	2015	2014	2013
Net cash provided by (used in) operating activities	$ 11,920	$ 6,842	$ 5,475
Purchases of property and equipment, including internal-use software and website development, net	(4,589)	(4,893)	(3,444)
Principal repayments of capital lease obligations	(2,462)	(1,285)	(775)
Principal repayments of finance lease obligations	(121)	(135)	(5)
Free cash flow less lease principal repayments	$ 4,748	$ 529	$ 1,251
Net cash provided by (used in) investing activities	$ (6,450)	$ (5,065)	$ (4,276)
Net cash provided by (used in) financing activities	$ (3,763)	$ 4,432	$ (539)

Free Cash Flow Less Finance Lease Principal Repayments and Assets Acquired Under Capital Leases

Free cash flow less finance lease principal repayments and assets acquired under capital leases is free cash flow reduced by "Principal repayments of finance lease obligations," which are included in cash flow from financing activities, and property and equipment acquired under capital leases. In this measure, property and equipment acquired under capital leases is reflected as if these assets had been purchased with cash, which is not the case as these assets have been leased. The following is a reconciliation of free cash flow less finance lease principal repayments and assets acquired under capital leases to the most comparable GAAP cash flow measure, "Net cash provided by (used in) operating activities," for 2015, 2014, and 2013 (in millions):

	Year Ended December 31,		
	2015	2014	2013
Net cash provided by (used in) operating activities	$ 11,920	$ 6,842	$ 5,475
Purchases of property and equipment, including internal-use software and website development, net	(4,589)	(4,893)	(3,444)
Property and equipment acquired under capital leases	(4,717)	(4,008)	(1,867)
Principal repayments of finance lease obligations	(121)	(135)	(5)
Free cash flow less finance lease principal repayments and assets acquired under capital leases	$ 2,493	$ (2,194)	$ 159
Net cash provided by (used in) investing activities	$ (6,450)	$ (5,065)	$ (4,276)
Net cash provided by (used in) financing activities	$ (3,763)	$ 4,432	$ (539)

All of these free cash flows measures have limitations as they omit certain components of the overall cash flow statement and do not represent the residual cash flow available for discretionary expenditures. For example, these measures of free cash flows do not incorporate the portion of payments representing principal reductions of debt or cash payments for business acquisitions. Additionally, our mix of property and equipment acquisitions with cash or other financing options may change over time. Therefore, we believe it is important to view free cash flows measures only as a complement to our entire consolidated statements of cash flows.

Operating Expenses, Excluding Stock-Based Compensation

Operating expenses with and without stock-based compensation is provided to show the impact of stock-based compensation, which is non-cash and excluded from our internal operating plans and measurement of financial performance (although we consider the dilutive impact to our shareholders when awarding stock-based compensation and value such awards accordingly). In addition, unlike other centrally-incurred operating costs, stock-based compensation is not allocated to segment

results, and therefore, excluding it from operating expenses is consistent with our segment presentation in our footnotes to the consolidated financial statements.

Operating expenses without stock-based compensation has limitations since it does not include all expenses primarily related to our workforce. More specifically, if we did not pay out a portion of our compensation in the form of stock-based compensation, our cash salary expense included in the "Fulfillment," "Marketing," "Technology and content," and "General and administrative" line items would be higher.

Effect of Foreign Exchange Rates

Information regarding the effect of foreign exchange rates, versus the U.S. Dollar, on our consolidated statements of operations is provided to show reported period operating results had the foreign exchange rates remained the same as those in effect in the comparable prior year period.

Guidance

We provided guidance on January 28, 2016, in our earnings release furnished on Form 8-K as set forth below. These forward-looking statements reflect Amazon.com's expectations as of January 28, 2016, and are subject to substantial uncertainty. Our results are inherently unpredictable and may be materially affected by many factors, such as fluctuations in foreign exchange rates, changes in global economic conditions and customer spending, world events, the rate of growth of the Internet and online commerce, as well as those outlined in Item 1A of Part I, "Risk Factors."

First Quarter 2016 Guidance

- Net sales are expected to be between $26.5 billion and $29.0 billion, or to grow between 17% and 28% compared with first quarter 2015.
- Operating income is expected to be between $100 million and $700 million, compared with $255 million in first quarter 2015.
- This guidance includes approximately $600 million for stock-based compensation and other operating expense (income), net. It assumes, among other things, that no additional business acquisitions, investments, restructurings, or legal settlements are concluded and that there are no further revisions to stock-based compensation estimates.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

We are exposed to market risk for the effect of interest rate changes, foreign currency fluctuations, and changes in the market values of our investments. Information relating to quantitative and qualitative disclosures about market risk is set forth below and in Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources."

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our investment portfolio and our long-term debt. Our long-term debt is carried at amortized cost and fluctuations in interest rates do not impact our consolidated financial statements. However, the fair value of our debt, which pays interest at a fixed rate, will generally fluctuate with movements of interest rates, increasing in periods of declining rates of interest and declining in periods of increasing rates of interest. All of our cash equivalent and marketable fixed income securities are designated as available-for-sale and, accordingly, are presented at fair value on our consolidated balance sheets. We generally invest our excess cash in investment grade short- to intermediate-term fixed income securities and AAA-rated money market funds. Fixed income securities may have their fair market value adversely affected due to a rise in interest rates, and we may suffer losses in principal if forced to sell securities that have declined in market value due to changes in interest rates.

The following table provides information about our current and long-term cash equivalents and marketable fixed income securities, including principal cash flows by expected maturity and the related weighted-average interest rates as of December 31, 2015 (in millions, except percentages):

	2016	2017	2018	2019	2020	Thereafter	Total	Estimated Fair Value as of December 31, 2015
Money market funds	$ 8,025	$ —	$ —	$ —	$ —	$ —	$ 8,025	$ 8,025
Weighted-average interest rate	0.21 %	—%	—%	—%	—%	—%	0.21 %	
Corporate debt securities	131	172	141	14	11	—	469	477
Weighted-average interest rate	1.52 %	1.85 %	1.84 %	0.57%	0.74%	—%	1.69 %	
U.S. government and agency securities	4,487	484	147	31	6	—	5,155	5,167
Weighted-average interest rate	0.37 %	1.26 %	1.41 %	1.52%	2.23%	—%	0.50 %	
Asset backed securities	65	39	8	4	—	—	116	117
Weighted-average interest rate	1.85 %	1.87 %	1.80 %	1.83%	—%	—%	1.85 %	
Foreign government and agency securities	1	24	16	1	6	—	48	49
Weighted-average interest rate	(0.03)%	(0.10)%	(0.04)%	0.01%	0.04%	—%	(0.06)%	
Other securities	15	18	5	3	—	—	41	42
Weighted-average interest rate	0.64 %	1.33 %	1.17 %	2.23%	—%	—%	1.12 %	
	$ 12,724	$ 737	$ 317	$ 53	$ 23	$ —	$ 13,854	
Cash equivalent and marketable fixed income securities								$ 13,877

As of December 31, 2015, we had $8.5 billion of debt, including the current portion, primarily consisting of the following fixed rate unsecured debt (in millions):

COEX
8.186

1.20% Notes due on November 29, 2017	$	1,000
2.50% Notes due on November 29, 2022	$	1,250
2.60% Notes due on December 5, 2019	$	1,000
3.30% Notes due on December 5, 2021	$	1,000
3.80% Notes due on December 5, 2024	$	1,250
4.80% Notes due on December 5, 2034	$	1,250
4.95% Notes due on December 5, 2044	$	1,500

The fair value of our debt will fluctuate with movements of interest rates, increasing in periods of declining rates of interest and declining in periods of increasing rates of interest. Based upon quoted market prices and Level 2 inputs, the fair value of our total debt was $8.8 billion as of December 31, 2015.

Foreign Exchange Risk

During 2015, net sales from our International segment accounted for 33% of our consolidated revenues. Net sales and related expenses generated from our internationally-focused websites, and from www.amazon.ca and www.amazon.com.mx (which are included in our North America segment), are primarily denominated in the functional currencies of the corresponding websites and primarily include Euros, Japanese Yen, and British Pounds. The results of operations of, and certain of our intercompany balances associated with, our internationally-focused websites and AWS are exposed to foreign exchange rate fluctuations. Upon consolidation, as foreign exchange rates vary, net sales and other operating results may differ materially from expectations, and we may record significant gains or losses on the remeasurement of intercompany balances. For example, as a result of fluctuations in foreign exchange rates during 2015, International segment revenues decreased by $5.0 billion in comparison with the prior year.

We have foreign exchange risk related to foreign-denominated cash, cash equivalents, and marketable securities ("foreign funds"). Based on the balance of foreign funds as of December 31, 2015, of $7.3 billion, an assumed 5%, 10%, and 20% adverse change to foreign exchange would result in fair value declines of $365 million, $730 million, and $1.5 billion. All investments are classified as "available-for-sale." Fluctuations in fair value are recorded in "Accumulated other comprehensive loss," a separate component of stockholders' equity.

We have foreign exchange risk related to our intercompany balances denominated in various foreign currencies. Based on the intercompany balances as of December 31, 2015, an assumed 5%, 10%, and 20% adverse change to foreign exchange would result in losses of $190 million, $405 million, and $905 million, recorded to "Other income (expense), net."

See Item 7 of Part II, "Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Effect of Foreign Exchange Rates" for additional information on the effect on reported results of changes in foreign exchange rates.

Investment Risk

As of December 31, 2015, our recorded basis in equity investments was $280 million. These investments primarily relate to equity-method and cost-method investments in private companies. We review our investments for impairment when events and circumstances indicate that the decline in fair value of such assets below the carrying value is other-than-temporary. Our analysis includes a review of recent operating results and trends, recent sales/acquisitions of the investee securities, and other publicly available data. The current global economic climate provides additional uncertainty. Valuations of private companies are inherently more complex due to the lack of readily available market data. As such, we believe that market sensitivities are not practicable.

Item 8. ***Financial Statements and Supplementary Data***

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Report of Ernst & Young LLP, Independent Registered Public Accounting Firm	37
Consolidated Statements of Cash Flows	38
Consolidated Statements of Operations	39
Consolidated Statements of Comprehensive Income (Loss)	40
Consolidated Balance Sheets	41
Consolidated Statements of Stockholders' Equity	42
Notes to Consolidated Financial Statements	43

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Amazon.com, Inc.

We have audited the accompanying consolidated balance sheets of Amazon.com, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements 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. 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 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 Amazon.com, Inc. at December 31, 2015 and 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Amazon.com, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated January 28, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Seattle, Washington
January 28, 2016

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)

	Year Ended December 31,		
	2015	**2014**	**2013**
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	$ 14,557	$ 8,658	$ 8,084
OPERATING ACTIVITIES:			
Net income (loss)	596	(241)	274
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation of property and equipment, including internal-use software and website development, and other amortization, including capitalized content costs	6,281	4,746	3,253
Stock-based compensation	2,119	1,497	1,134
Other operating expense (income), net	155	129	114
Losses (gains) on sales of marketable securities, net	5	(3)	1
Other expense (income), net	245	62	166
Deferred income taxes	81	(316)	(156)
Excess tax benefits from stock-based compensation	(119)	(6)	(78)
Changes in operating assets and liabilities:			
Inventories	(2,187)	(1,193)	(1,410)
Accounts receivable, net and other	(1,755)	(1,039)	(846)
Accounts payable	4,294	1,759	1,888
Accrued expenses and other	913	706	736
Additions to unearned revenue	7,401	4,433	2,691
Amortization of previously unearned revenue	(6,109)	(3,692)	(2,292)
Net cash provided by (used in) operating activities	11,920	6,842	5,475
INVESTING ACTIVITIES:			
Purchases of property and equipment, including internal-use software and website development, net	(4,589)	(4,893)	(3,444)
Acquisitions, net of cash acquired, and other	(795)	(979)	(312)
Sales and maturities of marketable securities	3,025	3,349	2,306
Purchases of marketable securities	(4,091)	(2,542)	(2,826)
Net cash provided by (used in) investing activities	(6,450)	(5,065)	(4,276)
FINANCING ACTIVITIES:			
Excess tax benefits from stock-based compensation	119	6	78
Proceeds from long-term debt and other	353	6,359	394
Repayments of long-term debt and other	(1,652)	(513)	(231)
Principal repayments of capital lease obligations	(2,462)	(1,285)	(775)
Principal repayments of finance lease obligations	(121)	(135)	(5)
Net cash provided by (used in) financing activities	(3,763)	4,432	(539)
Foreign-currency effect on cash and cash equivalents	(374)	(310)	(86)
Net increase (decrease) in cash and cash equivalents	1,333	5,899	574
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 15,890	$ 14,557	$ 8,658

COEX
8.186

SUPPLEMENTAL CASH FLOW INFORMATION:

Cash paid for interest on long-term debt	$ 325	$ 91	$ 97
Cash paid for interest on capital and finance lease obligations	153	86	41
Cash paid for income taxes (net of refunds)	273	177	169
Property and equipment acquired under capital leases	4,717	4,008	1,867
Property and equipment acquired under build-to-suit leases	544	920	877

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(in millions, except per share data)

	Year Ended December 31,		
	2015	2014	2013
Net product sales	$ 79,268	$ 70,080	$ 60,903
Net service sales	27,738	18,908	13,549
Total net sales	107,006	88,988	74,452
Operating expenses (1):			
Cost of sales	71,651	62,752	54,181
Fulfillment	13,410	10,766	8,585
Marketing	5,254	4,332	3,133
Technology and content	12,540	9,275	6,565
General and administrative	1,747	1,552	1,129
Other operating expense (income), net	171	133	114
Total operating expenses	104,773	88,810	73,707
Income from operations	2,233	178	745
Interest income	50	39	38
Interest expense	(459)	(210)	(141)
Other income (expense), net	(256)	(118)	(136)
Total non-operating income (expense)	(665)	(289)	(239)
Income (loss) before income taxes	1,568	(111)	506
Provision for income taxes	(950)	(167)	(161)
Equity-method investment activity, net of tax	(22)	37	(71)
Net income (loss)	$ 596	$ (241)	$ 274
Basic earnings per share	$ 1.28	$ (0.52)	$ 0.60
Diluted earnings per share	$ 1.25	$ (0.52)	$ 0.59
Weighted-average shares used in computation of earnings per share:			
Basic	467	462	457
Diluted	477	462	465
(1) Includes stock-based compensation as follows:			
Fulfillment	$ 482	$ 375	$ 294
Marketing	190	125	88
Technology and content	1,224	804	603
General and administrative	223	193	149

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(in millions)

	Year Ended December 31,		
	2015	2014	2013
Net income (loss)	$ 596	$ (241)	$ 274
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax of $10, $(3), and $(20)	(210)	(325)	63
Net change in unrealized gains (losses) on available-for-sale securities:			
Unrealized gains (losses), net of tax of $(5), $1, and $3	(7)	2	(10)
Reclassification adjustment for losses (gains) included in “Other income (expense), net,” net of tax of $0, $(1), and $(1)	5	(3)	1
Net unrealized gains (losses) on available-for-sale securities	(2)	(1)	(9)
Total other comprehensive income (loss)	(212)	(326)	54
Comprehensive income (loss)	$ 384	$ (567)	$ 328

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.

CONSOLIDATED BALANCE SHEETS
(in millions, except per share data)

	December 31,	
	2015	2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 15,890	$ 14,557
Marketable securities	3,918	2,859
Inventories	10,243	8,299
Accounts receivable, net and other	6,423	5,612
Total current assets	36,474	31,327
Property and equipment, net	21,838	16,967
Goodwill	3,759	3,319
Other assets	3,373	2,892
Total assets	$ 65,444	$ 54,505
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 20,397	$ 16,459
Accrued expenses and other	10,384	9,807
Unearned revenue	3,118	1,823
Total current liabilities	33,899	28,089
Long-term debt	8,235	8,265
Other long-term liabilities	9,926	7,410
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, $0.01 par value:		
Authorized shares — 500		
Issued and outstanding shares — none	—	—
Common stock, $0.01 par value:		
Authorized shares — 5,000		
Issued shares — 494 and 488		
Outstanding shares — 471 and 465	5	5
Treasury stock, at cost	(1,837)	(1,837)
Additional paid-in capital	13,394	11,135
Accumulated other comprehensive loss	(723)	(511)
Retained earnings	2,545	1,949
Total stockholders' equity	13,384	10,741
Total liabilities and stockholders' equity	$ 65,444	$ 54,505

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(in millions)

	Common Stock						
	Shares	Amount	Treasury Stock	Additional Paid-In Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balance as of January 1, 2013	454	$ 5	$ (1,837)	$ 8,347	$ (239)	$ 1,916	$ 8,192
Net income	—	—	—	—	—	274	274
Other comprehensive income (loss)	—	—	—	—	54	—	54
Exercise of common stock options	5	—	—	4	—	—	4
Excess tax benefits from stock-based compensation	—	—	—	73	—	—	73
Stock-based compensation and issuance of employee benefit plan stock	—	—	—	1,149	—	—	1,149
Balance as of December 31, 2013	459	5	(1,837)	9,573	(185)	2,190	9,746
Net loss	—	—	—	—	—	(241)	(241)
Other comprehensive income (loss)	—	—	—	—	(326)	—	(326)
Exercise of common stock options	6	—	—	2	—	—	2
Excess tax benefits from stock-based compensation	—	—	—	6	—	—	6
Stock-based compensation and issuance of employee benefit plan stock	—	—	—	1,510	—	—	1,510
Issuance of common stock for acquisition activity	—	—	—	44	—	—	44
Balance as of December 31, 2014	465	5	(1,837)	11,135	(511)	1,949	10,741
Net income	—	—	—	—	—	596	596
Other comprehensive income (loss)	—	—	—	—	(212)	—	(212)
Exercise of common stock options	6	—	—	4	—	—	4
Excess tax benefits from stock-based compensation	—	—	—	119	—	—	119
Stock-based compensation and issuance of employee benefit plan stock	—	—	—	2,131	—	—	2,131
Issuance of common stock for acquisition activity	—	—	—	5	—	—	5
Balance as of December 31, 2015	471	$ 5	$ (1,837)	$ 13,394	$ (723)	$ 2,545	$ 13,384

See accompanying notes to consolidated financial statements.

AMAZON.COM, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1—DESCRIPTION OF BUSINESS AND ACCOUNTING POLICIES

Description of Business

Amazon.com opened its virtual doors on the World Wide Web in July 1995. We seek to be Earth's most customer-centric company. In each of our segments, we serve our primary customer sets, consisting of consumers, sellers, developers, enterprises, and content creators. We serve consumers through our retail websites and focus on selection, price, and convenience. We also manufacture and sell electronic devices. We offer programs that enable sellers to sell their products on our websites and their own branded websites and to fulfill orders through us, and programs that allow authors, musicians, filmmakers, app developers, and others to publish and sell content. We serve developers and enterprises of all sizes through our AWS segment, which provides access to technology infrastructure that enables virtually any type of business. In addition, we provide services, such as advertising services and co-branded credit card agreements.

We have organized our operations into three segments: North America, International, and AWS. See "Note 11—Segment Information."

Prior Period Reclassifications

Certain prior period amounts have been reclassified to conform to the current period presentation, including recasting the segment financial information within "Note 11—Segment Information" as a result of changing our reportable segments to include an AWS segment.

Principles of Consolidation

The consolidated financial statements include the accounts of Amazon.com, Inc., its wholly-owned subsidiaries, and those entities in which we have a variable interest and of which we are the primary beneficiary, including certain entities in India and China (collectively, the "Company"). Intercompany balances and transactions between consolidated entities are eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and related disclosures of contingent liabilities in the consolidated financial statements and accompanying notes. Estimates are used for, but not limited to, determining the selling price of products and services in multiple element revenue arrangements and determining the amortization period of these elements, incentive discount offers, sales returns, vendor funding, stock-based compensation forfeiture rates, income taxes, valuation and impairment of investments, inventory valuation and inventory purchase commitments, collectability of receivables, valuation of acquired intangibles and goodwill, depreciable lives of property and equipment, internal-use software and website development costs, acquisition purchase price allocations, investments in equity interests, and contingencies. Actual results could differ materially from those estimates.

Earnings per Share

Basic earnings per share is calculated using our weighted-average outstanding common shares. Diluted earnings per share is calculated using our weighted-average outstanding common shares including the dilutive effect of stock awards as determined under the treasury stock method. In periods when we have a net loss, stock awards are excluded from our calculation of earnings per share as their inclusion would have an antidilutive effect. In 2014, we excluded stock awards of 17 million.

The following table shows the calculation of diluted shares (in millions):

	Year Ended December 31,		
	2015	2014	2013
Shares used in computation of basic earnings per share	467	462	457
Total dilutive effect of outstanding stock awards	10	—	8
Shares used in computation of diluted earnings per share	477	462	465

Revenue

We recognize revenue from product sales or services rendered when the following four criteria are met: persuasive evidence of an arrangement exists, delivery has occurred or service has been rendered, the selling price is fixed or determinable, and collectability is reasonably assured. Revenue arrangements with multiple deliverables are divided into separate units and revenue is allocated using estimated selling prices if we do not have vendor-specific objective evidence or third-party evidence of the selling prices of the deliverables. We allocate the arrangement price to each of the elements based on the relative selling prices of each element. Estimated selling prices are management's best estimates of the prices that we would charge our customers if we were to sell the standalone elements separately and include considerations of customer demand, prices charged by us and others for similar deliverables, and the price if largely based on the cost of producing the product or service.

Sales of our digital devices, including Kindle e-readers, Fire tablets, Fire TVs, and Echo, are considered arrangements with multiple deliverables, consisting of the device, undelivered software upgrades and/or undelivered non-software services such as cloud storage and free trial memberships to other services. The revenue allocated to the device, which is the substantial portion of the total sale price, and related costs are generally recognized upon delivery. Revenue related to undelivered software upgrades and/or undelivered non-software services is deferred and recognized generally on a straight-line basis over the estimated period the software upgrades and non-software services are expected to be provided for each of these devices.

Sales of Amazon Prime memberships are also considered arrangements with multiple deliverables, including shipping benefits, Prime Video, Prime Music, Prime Photos, and access to the Kindle Owners' Lending Library. The revenue related to the deliverables is amortized over the life of the membership based on the estimated delivery of services. Amazon Prime membership fees are allocated between product sales and service sales. Costs to deliver Amazon Prime benefits are recognized as cost of sales as incurred. As we add more benefits to the Prime membership, we will update the method of determining the estimated selling prices of each element as well as the allocation of Prime membership fees.

We evaluate whether it is appropriate to record the gross amount of product sales and related costs or the net amount earned as commissions. Generally, when we are primarily obligated in a transaction, are subject to inventory risk, have latitude in establishing prices and selecting suppliers, or have several but not all of these indicators, revenue is recorded at the gross sale price. We generally record the net amounts as commissions earned if we are not primarily obligated and do not have latitude in establishing prices. Such amounts earned are determined using fixed fees, a percentage of seller revenues, per-unit activity fees, or some combination thereof.

Product sales represent revenue from the sale of products and related shipping fees and digital media content where we record revenue gross. Product sales and shipping revenues, net of promotional discounts, rebates, and return allowances, are recorded when the products are shipped and title passes to customers. Retail sales to customers are made pursuant to a sales contract that provides for transfer of both title and risk of loss upon our delivery to the carrier. Amazon's electronic devices sold through retailers are recognized at the point of sale to consumers.

Service sales represent third-party seller fees earned (including commissions) and related shipping fees, AWS sales, digital content subscriptions, advertising services, and our co-branded credit card agreements. Service sales, net of promotional discounts and return allowances, are recognized when service has been rendered.

Return allowances, which reduce revenue, are estimated using historical experience. Allowance for returns was $153 million, $147 million, and $167 million as of December 31, 2015, 2014, and 2013. Additions to the allowance were $1.3 billion, $1.1 billion, and $907 million, and deductions to the allowance were $1.3 billion, $1.1 billion, and $938 million in 2015, 2014, and 2013. Revenue from product sales and services rendered is recorded net of sales and consumption taxes. Additionally, we periodically provide incentive offers to our customers to encourage purchases. Such offers include current discount offers, such as percentage discounts off current purchases, inducement offers, such as offers for future discounts subject to a minimum current purchase, and other similar offers. Current discount offers, when accepted by our customers, are treated as a reduction to the purchase price of the related transaction, while inducement offers, when accepted by our customers, are treated as a reduction to purchase price based on estimated future redemption rates. Redemption rates are estimated using our historical experience for similar inducement offers. Current discount offers and inducement offers are presented as a net amount in "Total net sales."

Cost of Sales

Cost of sales primarily consists of the purchase price of consumer products, digital media content costs where we record revenue gross, including Prime Video and Prime Music, packaging supplies, sortation and delivery centers and related equipment costs, and inbound and outbound shipping costs, including where we are the transportation service provider. Shipping costs to receive products from our suppliers are included in our inventory, and recognized as cost of sales upon sale of

products to our customers. Payment processing and related transaction costs, including those associated with seller transactions, are classified in “Fulfillment” on our consolidated statements of operations.

Vendor Agreements

We have agreements with our vendors to receive funds for advertising services, cooperative marketing efforts, promotions, and volume rebates. We generally consider amounts received from vendors to be a reduction of the prices we pay for their goods, including property and equipment, or services, and therefore record those amounts as a reduction of the cost of inventory, cost of services, or cost of property and equipment. Vendor rebates are typically dependent upon reaching minimum purchase thresholds. We evaluate the likelihood of reaching purchase thresholds using past experience and current year forecasts. When volume rebates can be reasonably estimated, we record a portion of the rebate as we make progress towards the purchase threshold.

When we receive direct reimbursements for costs incurred by us in advertising the vendor's product or service, the amount we receive is recorded as an offset to "Marketing" on our consolidated statements of operations.

Fulfillment

Fulfillment costs primarily consist of those costs incurred in operating and staffing our North America and International segments' fulfillment and customer service centers, including costs attributable to buying, receiving, inspecting, and warehousing inventories; picking, packaging, and preparing customer orders for shipment; payment processing and related transaction costs, including costs associated with our guarantee for certain seller transactions; responding to inquiries from customers; and supply chain management for our manufactured electronic devices. Fulfillment costs also include amounts paid to third parties that assist us in fulfillment and customer service operations.

Marketing

Marketing costs primarily consist of targeted online advertising, television advertising, public relations expenditures, and payroll and related expenses for personnel engaged in marketing and selling activities. We pay commissions to participants in our Associates program when their customer referrals result in product sales and classify such costs as "Marketing" on our consolidated statements of operations. We also participate in cooperative advertising arrangements with certain of our vendors, and other third parties.

Advertising and other promotional costs are expensed as incurred and were $3.8 billion, $3.3 billion, and $2.4 billion in 2015, 2014, and 2013. Prepaid advertising costs were not significant as of December 31, 2015 and 2014.

Technology and Content

Technology costs consist principally of research and development activities including payroll and related expenses for employees involved in application, production, maintenance, operation, and platform development for new and existing products and services, as well as AWS and other technology infrastructure expenses.

Content costs consist principally of payroll and related expenses for employees involved in category expansion, editorial content, buying, and merchandising selection.

Technology and content costs are expensed as incurred, except for certain costs relating to the development of internal-use software and website development, including software used to upgrade and enhance our websites and applications supporting our business, which are capitalized and amortized over two years.

General and Administrative

General and administrative expenses primarily consist of payroll and related expenses; facilities and equipment, such as depreciation expense and rent; professional fees and litigation costs; and other general corporate costs for corporate functions, including accounting, finance, tax, legal, and human resources, among others.

Stock-Based Compensation

Compensation cost for all stock awards expected to vest is measured at fair value on the date of grant and recognized over the service period. The fair value of restricted stock units is determined based on the number of shares granted and the quoted price of our common stock, and the fair value of stock options is estimated on the date of grant using a Black-Scholes model. Such value is recognized as expense over the service period, net of estimated forfeitures, using the accelerated method. The estimated number of stock awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised. We consider many factors when estimating expected forfeitures, including employee level, economic conditions,

time remaining to vest, and historical forfeiture experience.

Other Operating Expense (Income), Net

Other operating expense (income), net, consists primarily of marketing-related, contract-based, and customer-related intangible asset amortization expense and expenses related to legal settlements.

Other Income (Expense), Net

Other income (expense), net, consists primarily of foreign currency losses of $(266) million, $(127) million, and $(137) million in 2015, 2014, and 2013, and realized gains (losses) on marketable securities sales of $(5) million, $3 million, and $(1) million in 2015, 2014, and 2013.

Income Taxes

Income tax expense includes U.S. (federal and state) and foreign income taxes. Except as required under U.S. tax laws, we do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed since we intend to invest such undistributed earnings indefinitely outside of the U.S. If our intent changes or if these funds are needed for our U.S. operations, we would be required to accrue or pay U.S. taxes on some or all of these undistributed earnings and our effective tax rate would be adversely affected. Undistributed earnings of foreign subsidiaries that are indefinitely invested outside of the U.S were $1.5 billion as of December 31, 2015. Determination of the unrecognized deferred tax liability that would be incurred if such amounts were repatriated is not practicable.

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered.

Deferred tax assets are evaluated for future realization and reduced by a valuation allowance to the extent we believe they will not be realized. We consider many factors when assessing the likelihood of future realization of our deferred tax assets, including our recent cumulative earnings experience and expectations of future taxable income and capital gains by taxing jurisdiction, the carry-forward periods available to us for tax reporting purposes, and other relevant factors. We allocate our valuation allowance to current and long-term deferred tax assets on a pro-rata basis.

We utilize a two-step approach to recognizing and measuring uncertain income tax positions (tax contingencies). The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount which is more than 50% likely of being realized upon ultimate settlement. We consider many factors when evaluating our tax positions and estimating our tax benefits, which may require periodic adjustments and which may not accurately forecast actual outcomes. We include interest and penalties related to our tax contingencies in income tax expense.

Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. To increase the comparability of fair value measures, the following hierarchy prioritizes the inputs to valuation methodologies used to measure fair value:

Level 1 — Valuations based on quoted prices for identical assets and liabilities in active markets.

Level 2 — Valuations based on observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Valuations based on unobservable inputs reflecting our own assumptions, consistent with reasonably available assumptions made by other market participants. These valuations require significant judgment.

For our cash, cash equivalents, or marketable securities, we measure the fair value of money market funds and equity securities based on quoted prices in active markets for identical assets or liabilities. All other financial instruments were valued either based on recent trades of securities in inactive markets or based on quoted market prices of similar instruments and other significant inputs derived from or corroborated by observable market data. We did not hold any cash, cash equivalents, or marketable securities categorized as Level 3 assets as of December 31, 2015, or December 31, 2014.

As part of entering into commercial agreements, we often obtain equity warrant assets giving us the right to acquire stock primarily in private companies. We record these assets in “Other assets” on the accompanying consolidated balance sheets.

Equity warrant assets are classified as Level 3 assets, and the balances and related activity for our equity warrant assets were not significant for the periods ended December 31, 2015, 2014, and 2013.

Cash and Cash Equivalents

We classify all highly liquid instruments with an original maturity of three months or less as cash equivalents.

Inventories

Inventories, consisting of products available for sale, are primarily accounted for using the first-in, first-out ("FIFO") method, and are valued at the lower of cost or market value. This valuation requires us to make judgments, based on currently-available information, about the likely method of disposition, such as through sales to individual customers, returns to product vendors, or liquidations, and expected recoverable values of each disposition category.

We provide Fulfillment by Amazon services in connection with certain of our sellers' programs. Third-party sellers maintain ownership of their inventory, regardless of whether fulfillment is provided by us or the third-party sellers, and therefore these products are not included in our inventories.

We also purchase electronic device components from a variety of suppliers and use several contract manufacturers to provide manufacturing services for our products. During the normal course of business, in order to manage manufacturing lead times and help ensure adequate component supply, we enter into agreements with contract manufacturers and suppliers. A portion of our reported purchase commitments arising from these agreements consists of firm, non-cancellable commitments. These commitments are based on forecasted customer demand. If we reduce these commitments, we may incur additional costs.

Accounts Receivable, Net and Other

Included in "Accounts receivable, net and other" on our consolidated balance sheets are amounts primarily related to customer and seller receivables and vendor receivables. As of December 31, 2015 and 2014, customer and seller receivables, net, were $2.6 billion and $1.9 billion, and vendor receivables, net, were $1.8 billion and $1.4 billion.

We estimate losses on receivables based on known troubled accounts and historical experience of losses incurred. Receivables are considered impaired and written-off when it is probable that all contractual payments due will not be collected in accordance with the terms of the agreement. The allowance for doubtful accounts was $189 million, $190 million, and $153 million as of December 31, 2015, 2014, and 2013. Additions to the allowance were $289 million, $225 million, and $172 million, and deductions to the allowance were $290 million, $188 million, and $135 million in 2015, 2014, and 2013.

Internal-Use Software and Website Development

Costs incurred to develop software for internal use and our websites are capitalized and amortized over the estimated useful life of the software. Costs related to design or maintenance of internal-use software and website development are expensed as incurred. For the years ended 2015, 2014, and 2013, we capitalized $642 million (including $114 million of stock-based compensation), $641 million (including $104 million of stock-based compensation), and $581 million (including $87 million of stock-based compensation) of costs associated with internal-use software and website development. Amortization of previously capitalized amounts was $635 million, $559 million, and $451 million for 2015, 2014, and 2013.

Property and Equipment, Net

Property and equipment are stated at cost less accumulated depreciation. Property includes buildings and land that we own, along with property we have acquired under build-to-suit, financing, and capital lease arrangements. Equipment includes assets such as furniture and fixtures, heavy equipment, servers and networking equipment, and internal-use software and website development. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets (generally the lesser of 40 years or the remaining life of the underlying building, two years for assets such as internal-use software, three years for our servers, five years for networking equipment, five years for furniture and fixtures, and ten years for heavy equipment). Depreciation expense is classified within the corresponding operating expense categories on our consolidated statements of operations.

Leases and Asset Retirement Obligations

We categorize leases at their inception as either operating or capital leases. On certain of our lease agreements, we may receive rent holidays and other incentives. We recognize lease costs on a straight-line basis without regard to deferred payment terms, such as rent holidays, that defer the commencement date of required payments. Additionally, incentives we receive are treated as a reduction of our costs over the term of the agreement. Leasehold improvements are capitalized at cost and amortized over the lesser of their expected useful life or the non-cancellable term of the lease.

We establish assets and liabilities for the estimated construction costs incurred under build-to-suit lease arrangements to the extent we are involved in the construction of structural improvements or take construction risk prior to commencement of a

lease. Upon occupancy of facilities under build-to-suit leases, we assess whether these arrangements qualify for sales recognition under the sale-leaseback accounting guidance. If we continue to be the deemed owner, the facilities are accounted for as finance leases.

We establish assets and liabilities for the present value of estimated future costs to retire long-lived assets at the termination or expiration of a lease. Such assets are depreciated over the lease period into operating expense, and the recorded liabilities are accreted to the future value of the estimated retirement costs.

Goodwill

We evaluate goodwill for impairment annually or more frequently when an event occurs or circumstances change that indicate the carrying value may not be recoverable. In testing for goodwill impairment, we may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If our qualitative assessment indicates that goodwill impairment is more likely than not, we perform a two-step impairment test. We test goodwill for impairment under the two-step impairment test by first comparing the book value of net assets to the fair value of the reporting units. If the fair value is determined to be less than the book value or qualitative factors indicate that it is more likely than not that goodwill is impaired, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimate the fair value of the reporting units using discounted cash flows. Forecasts of future cash flows are based on our best estimate of future net sales and operating expenses, based primarily on expected category expansion, pricing, market segment share, and general economic conditions.

During the second quarter of 2015, we changed the measurement date of our annual goodwill impairment test from October 1 to April 1. This change was not material to our consolidated financial statements as it did not result in the delay, acceleration, or avoidance of an impairment charge. We believe this timing better aligns the goodwill impairment test with our strategic business planning process, which is a key component of the goodwill impairment test. We completed the required annual testing of goodwill for impairment for all reporting units as of April 1, 2015, and determined that goodwill is not impaired. There were no triggering events identified from the date of our assessment through December 31, 2015 that would require an update to our annual impairment test. See “Note 4—Acquisitions, Goodwill, and Acquired Intangible Assets.”

Other Assets

Included in “Other assets” on our consolidated balance sheets are amounts primarily related to acquired intangible assets, net of amortization; video and music content, net of amortization; long-term deferred tax assets; certain equity investments; marketable securities restricted for longer than one year, the majority of which are attributable to collateralization of bank guarantees and debt related to our international operations; intellectual property rights, net of amortization; and equity warrant assets.

Video and Music Content

We obtain video and music content to be made available to Prime members through licensing agreements that have a wide range of licensing provisions and generally have terms from one to five years with fixed payment schedules. When the license fee for a specific movie, television, or music title is determinable or reasonably estimable and available for streaming, we recognize an asset representing the fee per title and a corresponding liability for the amounts owed. We relieve the liability as payments are made and we amortize the asset to “Cost of sales” on a straight-line basis or on an accelerated basis, based on estimated viewing patterns over each title’s contractual window of availability, which typically ranges from six months to five years. If we are unable to reasonably estimate the cost per title, no asset or liability is recorded and licensing costs are expensed as incurred. We also develop original content. The production costs of internally developed content are capitalized only if persuasive evidence exists that the production will generate revenue. Prior to 2015, because we had limited history to support the economic benefits of our content, we generally expensed such costs as incurred. In 2015, we began capitalizing a portion of production costs as we have developed more experience to support that future revenue will be earned. Capitalized internally developed costs are generally amortized to “Cost of sales” on an accelerated basis that follows the viewing pattern of customer streams in the first months after availability.

Investments

We generally invest our excess cash in investment grade short- to intermediate-term fixed income securities and AAA-rated money market funds. Such investments are included in “Cash and cash equivalents” or “Marketable securities” on the accompanying consolidated balance sheets, classified as available-for-sale, and reported at fair value with unrealized gains and losses included in “Accumulated other comprehensive loss.”

Equity investments are accounted for using the equity method of accounting if the investment gives us the ability to exercise significant influence, but not control, over an investee. Equity-method investments are included within “Other assets”

on our consolidated balance sheets. Our share of the earnings or losses as reported by equity-method investees, amortization of basis differences, and related gains or losses, if any, are classified as “Equity-method investment activity, net of tax” on our consolidated statements of operations.

Equity investments without readily determinable fair values and for which we do not have the ability to exercise significant influence are accounted for using the cost method of accounting and classified as “Other assets” on our consolidated balance sheets. Under the cost method, investments are carried at cost and are adjusted only for other-than-temporary declines in fair value, certain distributions, and additional investments.

Equity investments that have readily determinable fair values are classified as available-for-sale and are included in “Marketable securities” on our consolidated balance sheets and are recorded at fair value with unrealized gains and losses, net of tax, included in “Accumulated other comprehensive loss.”

We periodically evaluate whether declines in fair values of our investments below their book value are other-than-temporary. This evaluation consists of several qualitative and quantitative factors regarding the severity and duration of the unrealized loss as well as our ability and intent to hold the investment until a forecasted recovery occurs. Additionally, we assess whether we have plans to sell the security or it is more likely than not we will be required to sell any investment before recovery of its amortized cost basis. Factors considered include quoted market prices; recent financial results and operating trends; implied values from any recent transactions or offers of investee securities; credit quality of debt instrument issuers; other publicly available information that may affect the value of our investments; duration and severity of the decline in value; and our strategy and intentions for holding the investment.

Long-Lived Assets

Long-lived assets, other than goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets might not be recoverable. Conditions that would necessitate an impairment assessment include a significant decline in the observable market value of an asset, a significant change in the extent or manner in which an asset is used, or any other significant adverse change that would indicate that the carrying amount of an asset or group of assets may not be recoverable.

For long-lived assets used in operations, impairment losses are only recorded if the asset’s carrying amount is not recoverable through its undiscounted, probability-weighted future cash flows. We measure the impairment loss based on the difference between the carrying amount and estimated fair value. Long-lived assets are considered held for sale when certain criteria are met, including when management has committed to a plan to sell the asset, the asset is available for sale in its immediate condition, and the sale is probable within one year of the reporting date. Assets held for sale are reported at the lower of cost or fair value less costs to sell. Assets held for sale were not significant as of December 31, 2015 or 2014.

Accrued Expenses and Other

Included in “Accrued expenses and other” on our consolidated balance sheets are liabilities primarily related to unredeemed gift cards, leases and asset retirement obligations, current debt, acquired digital media content, and other operating expenses.

As of December 31, 2015 and 2014, our liabilities for unredeemed gift cards was $2.0 billion and $1.7 billion. We reduce the liability for a gift card when redeemed by a customer. If a gift card is not redeemed, we recognize revenue when it expires or when the likelihood of its redemption becomes remote, generally two years from the date of issuance.

Unearned Revenue

Unearned revenue is recorded when payments are received in advance of performing our service obligations and is recognized over the service period. Unearned revenue primarily relates to prepayments of Amazon Prime memberships and AWS services.

Foreign Currency

We have internationally-focused websites for Australia, Brazil, Canada, China, France, Germany, India, Italy, Japan, Mexico, the Netherlands, Spain, and the United Kingdom. Net sales generated from these websites, as well as most of the related expenses directly incurred from those operations, are denominated in local functional currencies. The functional currency of our subsidiaries that either operate or support these websites is generally the same as the local currency. Assets and liabilities of these subsidiaries are translated into U.S. Dollars at period-end foreign exchange rates, and revenues and expenses are translated at average rates prevailing throughout the period. Translation adjustments are included in "Accumulated other comprehensive loss," a separate component of stockholders' equity, and in the "Foreign-currency effect on cash and cash equivalents," on our consolidated statements of cash flows. Transaction gains and losses including intercompany transactions denominated in a currency other than the functional currency of the entity involved are included in "Other income (expense), net" on our consolidated statements of operations. In connection with the settlement and remeasurement of intercompany balances, we recorded losses of $215 million, $98 million, and $84 million in 2015, 2014, and 2013.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update ("ASU") amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB deferred the effective date of the revenue recognition guidance to reporting periods beginning after December 15, 2017. Early adoption is permitted for reporting periods beginning after December 15, 2016. We are continuing to evaluate our method of adoption and the impact this ASU, and related amendments and interpretations, will have on our consolidated financial statements.

In July 2015, the FASB issued an ASU modifying the accounting for inventory. Under this ASU, the measurement principle for inventory will change from lower of cost or market value to lower of cost and net realizable value. The ASU defines net realizable value as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The ASU is applicable to inventory that is accounted for under the first-in, first-out method and is effective for reporting periods after December 15, 2016, with early adoption permitted. We do not expect adoption to have a material impact on our consolidated financial statements.

In November 2015, the FASB issued an ASU amending the accounting for income taxes and requiring all deferred tax assets and liabilities to be classified as non-current on the consolidated balance sheet. The ASU is effective for reporting periods beginning after December 15, 2016, with early adoption permitted. The ASU may be adopted either prospectively or retrospectively. We are currently evaluating the method of adoption and expect this ASU will have an impact on our consolidated balance sheets as our current deferred tax assets were $769 million and current deferred tax liabilities were $13 million as of December 31, 2015.

Note 2—CASH, CASH EQUIVALENTS, AND MARKETABLE SECURITIES

As of December 31, 2015 and 2014, our cash, cash equivalents, and marketable securities primarily consisted of cash, U.S. and foreign government and agency securities, AAA-rated money market funds, and other investment grade securities. Cash equivalents and marketable securities are recorded at fair value. The following table summarizes, by major security type, our cash, cash equivalents, and marketable securities that are measured at fair value on a recurring basis and are categorized using the fair value hierarchy (in millions):

	December 31, 2015			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Estimated Fair Value
Cash	$ 6,201	$ —	$ —	$ 6,201
Level 1 securities:				
Money market funds	8,025	—	—	8,025
Equity securities	4	11	—	15
Level 2 securities:				
Foreign government and agency securities	49	—	—	49
U.S. government and agency securities	5,171	1	(5)	5,167
Corporate debt securities	479	—	(2)	477
Asset-backed securities	118	—	(1)	117
Other fixed income securities	42	—	—	42
	$ 20,089	$ 12	$ (8)	$ 20,093
Less: Restricted cash, cash equivalents, and marketable securities (1)				(285)
Total cash, cash equivalents, and marketable securities				$ 19,808

	December 31, 2014			
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Total Estimated Fair Value
Cash	$ 4,155	$ —	$ —	$ 4,155
Level 1 securities:				
Money market funds	10,718	—	—	10,718
Equity securities	2	2	—	4
Level 2 securities:				
Foreign government and agency securities	80	—	—	80
U.S. government and agency securities	2,407	1	(2)	2,406
Corporate debt securities	401	1	(1)	401
Asset-backed securities	69	—	—	69
Other fixed income securities	33	—	—	33
	$ 17,865	$ 4	$ (3)	$ 17,866
Less: Restricted cash, cash equivalents, and marketable securities (1)				(450)
Total cash, cash equivalents, and marketable securities				$ 17,416

(1) We are required to pledge or otherwise restrict a portion of our cash, cash equivalents, and marketable securities as collateral for standby and trade letters of credit, guarantees, debt, real estate leases, and amounts due to third-party sellers in certain jurisdictions. We classify cash, cash equivalents, and marketable securities with use restrictions of less than twelve months as “Accounts receivable, net and other” and of twelve months or longer as non-current “Other assets” on our consolidated balance sheets. See “Note 7—Commitments and Contingencies.”

The following table summarizes gross gains and gross losses realized on sales of available-for-sale marketable securities (in millions):

	Year Ended December 31,		
	2015	2014	2013
Realized gains	$ 2	$ 8	$ 6
Realized losses	7	5	7

The following table summarizes the contractual maturities of our cash equivalents and marketable fixed-income securities as of December 31, 2015 (in millions):

	Amortized Cost	Estimated Fair Value
Due within one year	$ 12,533	$ 12,531
Due after one year through five years	1,086	1,084
Due after five years through ten years	96	95
Due after ten years	169	167
Total	$ 13,884	$ 13,877

Actual maturities may differ from the contractual maturities because borrowers may have certain prepayment conditions.

Note 3—PROPERTY AND EQUIPMENT

Property and equipment, at cost, consisted of the following (in millions):

	December 31,	
	2015	2014
Gross property and equipment (1):		
Land and buildings	$ 9,770	$ 7,150
Equipment and internal-use software (2)	18,417	14,213
Other corporate assets	334	304
Construction in progress	1,532	1,063
Gross property and equipment	30,053	22,730
Total accumulated depreciation (1)	8,215	5,763
Total property and equipment, net	$ 21,838	$ 16,967

(1) Excludes the original cost and accumulated depreciation of fully-depreciated assets.
(2) Includes internal-use software of $1.4 billion and $1.3 billion as of December 31, 2015 and 2014.

Depreciation expense on property and equipment was $4.9 billion, $3.6 billion, and $2.5 billion, which includes amortization of property and equipment acquired under capital leases of $2.7 billion, $1.5 billion, and $826 million for 2015, 2014, and 2013. Gross assets recorded under capital leases were $12.0 billion and $7.9 billion as of December 31, 2015 and 2014. Accumulated depreciation associated with capital leases was $5.4 billion and $3.3 billion as of December 31, 2015 and 2014.

We capitalize construction in progress and record a corresponding long-term liability for build-to-suit lease agreements where we are considered the owner, for accounting purposes, during the construction period. For buildings under build-to-suit lease arrangements where we have taken occupancy, which do not qualify for sales recognition under the sale-leaseback accounting guidance, we determined that we continue to be the deemed owner of these buildings. This is principally due to our significant investment in tenant improvements. As a result, the buildings are being depreciated over the shorter of their useful lives or the related leases' terms. Additionally, certain build-to-suit lease arrangements and finance leases provide purchase

options. Upon occupancy, the long-term construction obligations are considered long-term finance lease obligations with amounts payable during the next 12 months recorded as “Accrued expenses and other.” Gross assets remaining under finance leases were $2.0 billion and $1.4 billion as of December 31, 2015 and 2014. Accumulated depreciation associated with finance leases was $199 million and $87 million as of December 31, 2015 and 2014.

Note 4—ACQUISITIONS, GOODWILL, AND ACQUIRED INTANGIBLE ASSETS

2015 Acquisition Activity

During 2015, we acquired certain companies for an aggregate purchase price of $690 million. The primary reasons for these acquisitions, none of which was individually material to our consolidated financial statements, were to acquire technologies and know-how to enable Amazon to serve customers more effectively.

Acquisition-related costs were expensed as incurred and not significant. The aggregate purchase price of these acquisitions was allocated as follows (in millions):

Purchase Price		
Cash paid, net of cash acquired	$	599
Stock options and restricted stock units assumed		5
Indemnification holdback		86
	$	690
Allocation		
Goodwill	$	482
Intangible assets (1):		
Marketing-related		3
Contract-based		1
Technology-based		208
Customer-related		18
		230
Property and equipment		4
Deferred tax assets		55
Other assets acquired		53
Deferred tax liabilities		(85)
Other liabilities assumed		(49)
	$	690

(1) Acquired intangible assets have estimated useful lives of between one and six years, with a weighted-average amortization period of five years.

The fair value of assumed stock options, estimated using the Black-Scholes model, and restricted stock units of $9 million will be expensed over the remaining service period. We determined the estimated fair value of identifiable intangible assets acquired primarily by using the income approach. These assets are included within “Other assets” on our consolidated balance sheets and are being amortized to operating expenses on a straight-line basis over their estimated useful lives.

Pro Forma Financial Information – 2015 Acquisition Activity (unaudited)

The acquired companies were consolidated into our financial statements starting on their respective acquisition dates. The aggregate net sales and operating income (loss) of the companies acquired was $23 million and $(112) million for 2015. The following financial information, which excludes certain acquired companies for which the pro forma impact is not meaningful, presents our results as if the acquisitions during 2015 had occurred at the beginning of 2014 (in millions):

	Year Ended December 31,	
	2015	2014
Net sales	$ 107,054	$ 89,039
Net income (loss)	$ 576	$ (311)

2014 Acquisition Activity

On September 25, 2014, we acquired Twitch Interactive, Inc. ("Twitch") for approximately $842 million in cash, as adjusted for the assumption of options and other items. During 2014, we acquired certain other companies for an aggregate purchase price of $20 million. We acquired Twitch because of its user community and the live streaming experience it provides. The primary reasons for our other 2014 acquisitions were to acquire technologies and know-how to enable Amazon to serve customers more effectively.

Acquisition-related costs were expensed as incurred and not significant. The aggregate purchase price of these acquisitions was allocated as follows (in millions):

Purchase Price		
Cash paid, net of cash acquired	$	813
Stock options assumed		44
Indemnification holdback		5
	$	862
Allocation		
Goodwill	$	707
Intangible assets (1):		
Marketing-related		23
Contract-based		1
Technology-based		33
Customer-related		173
		230
Property and equipment		16
Deferred tax assets		64
Other assets acquired		34
Deferred tax liabilities		(88)
Other liabilities assumed		(101)
	$	862

(1) Acquired intangible assets have estimated useful lives of between one and five years, with a weighted-average amortization period of five years.

The fair value of assumed stock options of $39 million, estimated using the Black-Scholes model, will be expensed over the remaining service period. We determined the estimated fair value of identifiable intangible assets acquired primarily by using the income approach. These assets are included within "Other assets" on our consolidated balance sheets and are being amortized to operating expenses on a straight-line or accelerated basis over their estimated useful lives.

Pro forma results of operations have not been presented because the effects of these acquisitions, individually and in the aggregate, were not material to our consolidated results of operations.

2013 Acquisition Activity

In 2013, we acquired several companies in cash transactions for an aggregate purchase price of $195 million, resulting in goodwill of $103 million and acquired intangible assets of $83 million. The primary reasons for these acquisitions were to expand our customer base and sales channels and to obtain certain technologies to be used in product development. We determined the estimated fair value of identifiable intangible assets acquired primarily by using the income and cost approaches. These assets are included within "Other assets" on our consolidated balance sheets and are being amortized to operating expenses on a straight-line or accelerated basis over their estimated useful lives. Acquisition-related costs were expensed as incurred and were not significant.

Pro forma results of operations have not been presented because the effects of these acquisitions, individually and in the aggregate, were not material to our consolidated results of operations.

Goodwill

The goodwill of the acquired companies is generally not deductible for tax purposes and is primarily related to expected improvements in technology performance and functionality, as well as sales growth from future product and service offerings and new customers, together with certain intangible assets that do not qualify for separate recognition. The following summarizes our goodwill activity in 2015 and 2014 by segment (in millions):

	North America	International	AWS	Consolidated
Goodwill - January 1, 2014	$ 2,033	$ 622	$ —	$ 2,655
New acquisitions (1)	553	162	—	715
Other adjustments (2)	(2)	(49)	—	(51)
Goodwill - December 31, 2014	2,584	735	—	3,319
Segment reallocation—January 1, 2015 (3)	(606)	—	606	—
New acquisitions	41	18	423	482
Other adjustments (2)	(7)	(34)	(1)	(42)
Goodwill - December 31, 2015	$ 2,012	$ 719	$ 1,028	$ 3,759

(1) Primarily includes the goodwill of Twitch.
(2) Primarily includes changes in foreign exchange rates.
(3) In conjunction with the change in reportable segments, we reallocated goodwill on a relative fair value basis.

Intangible Assets

Acquired intangible assets, included within “Other assets” on our consolidated balance sheets, consist of the following (in millions):

		December 31,					
		2015			2014		
	Weighted Average Life Remaining	Acquired Intangibles, Gross (1)	Accumulated Amortization (1)	Acquired Intangibles, Net	Acquired Intangibles, Gross (1)	Accumulated Amortization (1)	Acquired Intangibles, Net
Marketing-related	4.4	$ 457	$ (250)	$ 207	$ 457	$ (199)	$ 258
Contract-based	2.1	130	(99)	31	172	(125)	47
Technology- and content-based	3.9	559	(205)	354	370	(129)	241
Customer-related	3.6	331	(161)	170	535	(317)	218
Acquired intangibles (2)	3.9	$ 1,477	$ (715)	$ 762	$ 1,534	$ (770)	$ 764

(1) Excludes the original cost and accumulated amortization of fully-amortized intangibles.
(2) Intangible assets have estimated useful lives of between one and ten years.

Amortization expense for acquired intangibles was $228 million, $181 million, and $168 million in 2015, 2014, and 2013. Expected future amortization expense of acquired intangible assets as of December 31, 2015 is as follows (in millions):

Year Ended December 31,

COEX
8.186

2016	$	218
2017		191
2018		131
2019		103
2020		41
Thereafter		78
	$	762

Note 5—LONG-TERM DEBT

In December 2014 and November 2012, we issued $6.0 billion and $3.0 billion of unsecured senior notes as described in the table below (collectively, the "Notes"). As of December 31, 2015 and 2014, the unamortized discount on the Notes was $89 million and $96 million. We also have other long-term debt with a carrying amount, including the current portion, of $312 million and $881 million as of December 31, 2015 and 2014. The face value of our total long-term debt obligations is as follows (in millions):

	December 31,	
	2015	2014
0.65% Notes due on November 27, 2015	$ —	$ 750
1.20% Notes due on November 29, 2017 (1)	1,000	1,000
2.50% Notes due on November 29, 2022 (1)	1,250	1,250
2.60% Notes due on December 5, 2019 (2)	1,000	1,000
3.30% Notes due on December 5, 2021 (2)	1,000	1,000
3.80% Notes due on December 5, 2024 (2)	1,250	1,250
4.80% Notes due on December 5, 2034 (2)	1,250	1,250
4.95% Notes due on December 5, 2044 (2)	1,500	1,500
Other long-term debt	312	881
Total debt	8,562	9,881
Less current portion of long-term debt	(238)	(1,520)
Face value of long-term debt	$ 8,324	$ 8,361

(1) Issued in November 2012, effective interest rates of the 2017 and 2022 Notes were 1.38% and 2.66%.
(2) Issued in December 2014, effective interest rates of the 2019, 2021, 2024, 2034, and 2044 Notes were 2.73%, 3.43%, 3.90%, 4.92%, and 5.11%.

Interest on the Notes issued in 2014 is payable semi-annually in arrears in June and December. Interest on the Notes issued in 2012 is payable semi-annually in arrears in May and November. We may redeem the Notes at any time in whole, or from time to time, in part at specified redemption prices. We are not subject to any financial covenants under the Notes. The proceeds from the Notes are used for general corporate purposes. The estimated fair value of the Notes was approximately $8.5 billion and $9.1 billion as of December 31, 2015 and 2014, which is based on quoted prices for our publicly-traded debt as of those dates.

The other debt, including the current portion, had a weighted-average interest rate of 3.7% and 5.5% as of December 31, 2015 and 2014. We used the net proceeds from the issuance of this debt primarily to fund certain international operations. The estimated fair value of the other long-term debt, which is based on Level 2 inputs, approximated its carrying value as of December 31, 2015 and 2014.

As of December 31, 2015, future principal payments for our total debt were as follows (in millions):

Year Ended December 31,	
2016	$ 238
2017	1,037
2018	37
2019	1,000
2020	—
Thereafter	6,250
	$ 8,562

On September 5, 2014, we entered into an unsecured revolving credit facility (the “Credit Agreement”) with a syndicate of lenders that provides us with a borrowing capacity of up to $2.0 billion. The Credit Agreement has a term of two years, but it may be extended for up to three additional one-year terms if approved by the lenders. The initial interest rate applicable to outstanding balances under the Credit Agreement is the London interbank offered rate (“LIBOR”) plus 0.625%, under our current credit ratings. If our credit ratings are downgraded this rate could increase to as much as LIBOR plus 1.00%. There were no borrowings outstanding under the Credit Agreement as of December 31, 2015 and 2014.

Note 6—OTHER LONG-TERM LIABILITIES

Our other long-term liabilities are summarized as follows (in millions):

	December 31,	
	2015	2014
Long-term capital lease obligations	$ 4,212	$ 3,026
Long-term finance lease obligations	1,736	1,198
Construction liabilities	378	467
Tax contingencies	932	510
Long-term deferred tax liabilities	1,084	1,021
Other	1,584	1,188
Total other long-term liabilities	$ 9,926	$ 7,410

Capital and Finance Leases

Certain of our equipment, primarily related to technology infrastructure, and buildings have been acquired under capital leases. Long-term capital lease obligations are as follows (in millions):

	December 31, 2015
Gross capital lease obligations	$ 7,452
Less imputed interest	(213)
Present value of net minimum lease payments	7,239
Less current portion of capital lease obligations	(3,027)
Total long-term capital lease obligations	$ 4,212

We continue to be the deemed owner after occupancy of certain facilities that were constructed as build-to-suit lease arrangements and previously reflected as “Construction liabilities.” As such, these arrangements are accounted for as finance leases. Long-term finance lease obligations are as follows (in millions):

	December 31, 2015
Gross finance lease obligations	$ 2,390
Less imputed interest	(555)
Present value of net minimum lease payments	1,835
Less current portion of finance lease obligations	(99)
Total long-term finance lease obligations	$ 1,736

Construction Liabilities

We capitalize construction in progress and record a corresponding long-term liability for build-to-suit lease agreements where we are considered the owner during the construction period for accounting purposes. These liabilities primarily relate to our corporate buildings and fulfillment, sortation, delivery, and data centers.

Tax Contingencies

We have recorded tax reserves for tax contingencies, inclusive of accrued interest and penalties, for U.S. and foreign income taxes. These contingencies primarily relate to transfer pricing, state income taxes, and research and development credits. See “Note 10—Income Taxes” for discussion of tax contingencies.

Note 7—COMMITMENTS AND CONTINGENCIES

Commitments

We have entered into non-cancellable operating, capital, and finance leases for equipment and office, fulfillment, sortation, delivery, data center, and renewable energy facilities. Rental expense under operating lease agreements was $1.1 billion, $961 million, and $759 million for 2015, 2014, and 2013.

The following summarizes our principal contractual commitments, excluding open orders for purchases that support normal operations, as of December 31, 2015 (in millions):

	Year Ended December 31,						
	2016	2017	2018	2019	2020	Thereafter	Total
Debt principal and interest	$ 526	$ 1,322	$ 310	$ 1,272	$ 246	$ 9,157	$ 12,833
Capital lease obligations, including interest	3,128	2,521	1,277	304	139	83	7,452
Finance lease obligations, including interest	166	168	172	176	178	1,530	2,390
Operating leases	1,181	897	800	698	616	2,325	6,517
Unconditional purchase obligations (1)	614	547	399	166	43	13	1,782
Other commitments (2) (3)	851	273	188	132	86	1,112	2,642
Total commitments	$ 6,466	$ 5,728	$ 3,146	$ 2,748	$ 1,308	$ 14,220	$ 33,616

(1) Includes unconditional purchase obligations related to long-term agreements to acquire and license digital media content that are not reflected on the consolidated balance sheets. For those agreements with variable terms, we do not estimate the total obligation beyond any minimum quantities and/or pricing as of the reporting date. Purchase obligations associated with renewal provisions solely at the option of the content provider are included to the extent such commitments are fixed or a minimum amount is specified.

(2) Includes the estimated timing and amounts of payments for rent and tenant improvements associated with build-to-suit lease arrangements that have not been placed in service and digital media content liabilities associated with long-term digital media content assets with initial terms greater than one year.

(3) Excludes $1.2 billion of tax contingencies for which we cannot make a reasonably reliable estimate of the amount and period of payment, if any.

Pledged Assets

As of December 31, 2015 and 2014, we have pledged or otherwise restricted $418 million and $602 million of our cash, cash equivalents, and marketable securities, and certain property and equipment as collateral for standby and trade letters of credit, guarantees, debt relating to certain international operations, real estate leases, and amounts due to third-party sellers in certain jurisdictions.

Suppliers

During 2015, no vendor accounted for 10% or more of our purchases. We generally do not have long-term contracts or arrangements with our vendors to guarantee the availability of merchandise, particular payment terms, or the extension of credit limits.

Legal Proceedings

The Company is involved from time to time in claims, proceedings, and litigation, including the following:

In November 2007, an Austrian copyright collection society, Austro-Mechana, filed lawsuits against Amazon.com International Sales, Inc., Amazon EU S.à r.l., Amazon.de GmbH, Amazon.com GmbH, and Amazon Logistik in the Commercial Court of Vienna, Austria and in the District Court of Munich, Germany seeking to collect a tariff on blank digital media sold by our EU-based retail websites to customers located in Austria. In July 2008, the German court stayed the German case pending a final decision in the Austrian case. In July 2010, the Austrian court ruled in favor of Austro-Mechana and

ordered us to report all sales of products to which the tariff potentially applies for a determination of damages. We contested Austro-Mechana's claim and in September 2010 commenced an appeal in the Commercial Court of Vienna. We lost this appeal and in March 2011 commenced an appeal in the Supreme Court of Austria. In October 2011, the Austrian Supreme Court referred the case to the European Court of Justice ("ECJ"). In July 2013, the ECJ ruled that EU law does not preclude application of the tariff where certain conditions are met and directed the case back to the Austrian Supreme Court for further

proceedings. In October 2013, the Austrian Supreme Court referred the case back to the Commercial Court of Vienna for further fact finding to determine whether the tariff on blank digital media meets the conditions set by the ECJ. In August 2015, the Commercial Court of Vienna ruled that the Austrian tariff regime does not meet the conditions the ECJ set and dismissed Austro-Mechana's claims. In September 2015, Austro-Mechana appealed that judgment to the Higher Commercial Court of Vienna. In December 2015, the Higher Commercial Court of Vienna confirmed that the Austrian tariff regime does not meet the conditions the ECJ set and dismissed Austro-Mechana's appeal. A number of additional actions have been filed making similar allegations. In December 2012, a German copyright collection society, Zentralstelle für private Überspielungsrechte ("ZPU"), filed a complaint against Amazon EU S.à r.l., Amazon Media EU S.à r.l., Amazon Services Europe S.à r.l., Amazon Payments Europe SCA, Amazon Europe Holding Technologies SCS, and Amazon Eurasia Holdings S.à r.l. in the District Court of Luxembourg seeking to collect a tariff on blank digital media sold by the Amazon.de retail website to customers located in Germany. In January 2013, a Belgian copyright collection society, AUVIBEL, filed a complaint against Amazon EU S.à r.l. in the Court of First Instance of Brussels, Belgium, seeking to collect a tariff on blank digital media sold by the Amazon.fr retail website to customers located in Belgium. In November 2013, the Belgian court ruled in favor of AUVIBEL and ordered us to report all sales of products to which the tariff potentially applies for a determination of damages. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in these matters.

In May 2009, Big Baboon, Inc. filed a complaint against Amazon.com, Inc. and Amazon Payments, Inc. for patent infringement in the United States District Court for the Central District of California. The complaint alleges, among other things, that our third-party selling and payments technology infringes patents owned by Big Baboon, Inc. purporting to cover an "Integrated Business-to-Business Web Commerce And Business Automation System" (U.S. Patent Nos. 6,115,690 and 6,343,275) and seeks injunctive relief, monetary damages, treble damages, costs, and attorneys' fees. In February 2011, the court entered an order staying the lawsuit pending the outcome of the Patent and Trademark Office's re-examination of the patent. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

In June 2012, Hand Held Products, Inc., a subsidiary of Honeywell, filed a complaint against Amazon.com, Inc., AMZN Mobile, LLC, AmazonFresh, LLC, A9.com, Inc., A9 Innovations, LLC, and Quidsi, Inc. in the United States District Court for the District of Delaware. The complaint alleges, among other things, that the use of mobile barcode reader applications, including Amazon Mobile, Amazon Price Check, Flow, and AmazonFresh, infringes U.S. Patent No. 6,015,088, entitled "Decoding Of Real Time Video Imaging." The complaint seeks an unspecified amount of damages, interest, and an injunction. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

In July 2012, Norman Blagman filed a purported class-action complaint against Amazon.com, Inc. for copyright infringement in the United States District Court for the Southern District of New York. The complaint alleges, among other things, that Amazon.com, Inc. sells digital music in our Amazon MP3 Store obtained from defendant Orchard Enterprises and other unnamed "digital music aggregators" without obtaining mechanical licenses for the compositions embodied in that music. The complaint seeks certification as a class action, statutory damages, attorneys' fees, and interest. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

In November 2012, Lexington Luminance LLC filed a complaint against Amazon.com, Inc. and Amazon Digital Services, Inc. in the United States District Court for the District of Massachusetts. The complaint alleges, among other things, that certain light-emitting diodes in certain Kindle devices infringe U.S. Patent No. 6,936,851, entitled "Semiconductor Light-Emitting Device And Method For Manufacturing Same." The complaint seeks an unspecified amount of damages and an injunction or, in the absence of an injunction, a compulsory ongoing royalty. In March 2014, the court invalidated the plaintiff's patent and dismissed the case with prejudice, and the plaintiff appealed the judgment to the United States Court of Appeals for the Federal Circuit. In February 2015, the Federal Circuit reversed the judgment of the district court. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

Beginning in August 2013, a number of complaints were filed alleging, among other things, that Amazon.com, Inc. and several of its subsidiaries failed to compensate hourly workers for time spent waiting in security lines and otherwise violated federal and state wage and hour statutes and common law. In August 2013, Busk v. Integrity Staffing Solutions, Inc. and Amazon.com, Inc. was filed in the United States District Court for the District of Nevada, and Vance v. Amazon.com, Inc., Zappos.com Inc., another affiliate of Amazon.com, Inc., and Kelly Services, Inc. was filed in the United States District Court for the Western District of Kentucky. In September 2013, Allison v. Amazon.com, Inc. and Integrity Staffing Solutions, Inc. was filed in the United States District Court for the Western District of Washington, and Johnson v. Amazon.com, Inc. and an affiliate of Amazon.com, Inc. was filed in the United States District Court for the Western District of Kentucky. In October 2013, Davis v. Amazon.com, Inc., an affiliate of Amazon.com, Inc., and Integrity Staffing Solutions, Inc. was filed in the United States District Court for the Middle District of Tennessee. The plaintiffs variously purport to represent a nationwide class of certain current and former employees under the Fair Labor Standards Act and/or state-law-based subclasses for certain current and former employees in states including Arizona, California, Pennsylvania, South Carolina, Kentucky, Washington, and

Nevada, and one complaint asserts nationwide breach of contract and unjust enrichment claims. The complaints seek an unspecified amount of damages, interest, injunctive relief, and attorneys' fees. We have been named in several other similar cases. In December 2014, the Supreme Court ruled in Busk that time spent waiting for and undergoing security screening is not

compensable working time under the federal wage and hour statute. In February 2015, the courts in those actions alleging only federal law claims entered stipulated orders dismissing those actions without prejudice. We dispute any remaining allegations of wrongdoing and intend to defend ourselves vigorously in these matters.

In September 2013, Personalized Media Communications, LLC filed a complaint against Amazon.com, Inc. and Amazon Web Services, LLC in the United States District Court for the District of Delaware. The complaint alleges, among other things, that the use of certain Kindle devices, Kindle apps and/or Amazon.com, Inc.'s website to purchase and receive electronic media infringes nine U.S. Patents: Nos. 5,887,243, 7,801,304, 7,805,749, 7,940,931, 7,769,170, 7,864,956, 7,827,587, 8,046,791, and 7,883,252, all entitled "Signal Processing Apparatus And Methods." The complaint also alleges, among other things, that CloudFront, S3, and EC2 web services infringe three of those patents, Nos. 7,801,304, 7,864,956, and 7,827,587. The complaint seeks an unspecified amount of damages, interest, and injunctive relief. In August 2015, the court invalidated all asserted claims of all asserted patents and dismissed the case with prejudice. In September 2015, Personalized Media appealed that judgment to the United States Court of Appeals for the Federal Circuit. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

In November 2013, Memory Integrity, LLC filed a complaint against Amazon.com, Inc. for patent infringement in the United States District Court for the District of Delaware. The complaint alleges, among other things, that certain Kindle devices infringe U.S. Patent No. 7,296,121, entitled "Reducing Probe Traffic In Multiprocessor Systems." The complaint seeks an unspecified amount of damages, costs, expenses, and interest. In December 2014, the case was stayed pending resolution of review petitions filed with the United States Patent and Trademark Office. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

In December 2013, Appistry, Inc. filed a complaint against Amazon.com, Inc. and Amazon Web Services, Inc. for patent infringement in the United States District Court for the Eastern District of Missouri. The complaint alleges, among other things, that Amazon's Elastic Compute Cloud infringes U.S. Patent Nos. 8,200,746, entitled "System And Method For Territory-Based Processing Of Information," and 8,341,209, entitled "System And Method For Processing Information Via Networked Computers Including Request Handlers, Process Handlers, And Task Handlers." The complaint seeks injunctive relief, an unspecified amount of damages, treble damages, costs, and interest. In March 2015, the case was transferred to the United States District Court for the Western District of Washington. In July 2015, the court granted our motion for judgment on the pleadings and invalidated the patents-in-suit. In August 2015, the court entered judgment in our favor. In September 2015, the plaintiff appealed that judgment to the United States Court of Appeals for the Federal Circuit, and filed a new complaint against Amazon.com, Inc. and Amazon Web Services, Inc. in the United States District Court for the Western District of Washington. The 2015 complaint alleges, among other things, that Amazon's Elastic Compute Cloud, Simple Workflow, and Herd infringe U.S. Patent Nos. 8,682,959, entitled "System And Method For Fault Tolerant Processing Of Information Via Networked Computers Including Request Handlers, Process Handlers, And Task Handlers," and 9,049,267, entitled "System And Method For Processing Information Via Networked Computers Including Request Handlers, Process Handlers, And Task Handlers." The 2015 complaint seeks injunctive relief, an unspecified amount of damages, treble damages, costs, and interest. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in these matters.

In March 2014, Kaavo, Inc. filed a complaint against Amazon.com, Inc. and Amazon Web Services, Inc. for patent infringement in the United States District Court for the District of Delaware. The complaint alleges, among other things, that Amazon Web Services' Elastic Beanstalk and CloudFormation infringe U.S. Patent No. 8,271,974, entitled "Cloud Computing Lifecycle Management For N-Tier Applications." The complaint seeks injunctive relief, an unspecified amount of damages, costs, and interest. In June 2015, the case was stayed pending resolution of a motion for judgment on the pleadings in a related case. In July 2015, Kaavo Inc. filed another complaint against Amazon.com, Inc. and Amazon Web Services, Inc. in the United States District Court for the District of Delaware. The 2015 complaint alleges, among other things, that CloudFormation infringes U.S. Patent No. 9,043,751, entitled "Methods And Devices For Managing A Cloud Computing Environment." The 2015 complaint seeks injunctive relief, an unspecified amount of damages, enhanced damages, attorneys' fees, costs, and interest. In January 2016, the 2015 case was stayed pending resolution of a motion for judgment on the pleadings. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in these matters.

In December 2014, Smartflash LLC and Smartflash Technologies Limited filed a complaint against Amazon.com, Inc., Amazon.com, LLC, AMZN Mobile, LLC, Amazon Web Services, Inc. and Audible, Inc. for patent infringement in the United States District Court for the Eastern District of Texas. The complaint alleges, among other things, that Amazon Appstore, Amazon Instant Video, Amazon Music, Audible Audiobooks, the Amazon Mobile Ad Network, certain Kindle and Fire devices, Kindle e-bookstore, Amazon's proprietary Android operating system, and the servers involved in operating Amazon Appstore, Amazon Instant Video, Amazon Music, the Fire TV app, Audible Audiobooks, Cloud Drive, Cloud Player, Amazon Web Services, and Amazon Mobile Ad Network infringe seven related U.S. Patents: Nos. 7,334,720; 7,942,317; 8,033,458; 8,061,598; 8,118,221; 8,336,772; and 8,794,516, all entitled "Data Storage and Access Systems." In May 2015, the case was

stayed until further notice. The complaint seeks an unspecified amount of damages, an injunction, enhanced damages, attorneys' fees, costs, and interest. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

In March 2015, Zitovault, LLC filed a complaint against Amazon.com, Inc., Amazon.com, LLC, Amazon Web Services, Inc., and Amazon Web Services, LLC for patent infringement in the United States District Court for the Eastern District of Texas. The complaint alleges that Elastic Compute Cloud, Virtual Private Cloud, Elastic Load Balancing, Auto-Scaling, and Elastic Beanstalk infringe U.S. Patent No. 6,484,257, entitled "System and Method for Maintaining N Number of Simultaneous Cryptographic Sessions Using a Distributed Computing Environment." The complaint seeks injunctive relief, an unspecified amount of damages, enhanced damages, attorneys' fees, costs, and interest. In January 2016, the case was transferred to the United States District Court for the Western District of Washington. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

In June 2015, the European Commission opened a proceeding against Amazon.com, Inc. and Amazon EU S.à r.l. to investigate whether provisions in Amazon's contracts with European publishers violate European competition rules. We believe we comply with European competition rules and are cooperating with the Commission.

In November 2015, Eolas Technologies, Inc. filed a complaint against Amazon.com, Inc. in the United States District Court for the Eastern District of Texas. The complaint alleges, among other things, that the use of "interactive features" on www.amazon.com, including "search suggestions and search results," infringes U.S. Patent No. 9,195,507, entitled "Distributed Hypermedia Method and System for Automatically Invoking External Application Providing Interaction and Display of Embedded Objects Within A Hypermedia Document." The complaint seeks a judgment of infringement together with costs and attorneys' fees. We dispute the allegations of wrongdoing and intend to defend ourselves vigorously in this matter.

The outcomes of our legal proceedings are inherently unpredictable, subject to significant uncertainties, and could be material to our operating results and cash flows for a particular period. In addition, for some matters for which a loss is probable or reasonably possible, an estimate of the amount of loss or range of losses is not possible and we may be unable to estimate the possible loss or range of losses that could potentially result from the application of non-monetary remedies.

See also "Note 10—Income Taxes."

Note 8—STOCKHOLDERS' EQUITY

Preferred Stock

We have authorized 500 million shares of $0.01 par value preferred stock. No preferred stock was outstanding for any period presented.

Common Stock

Common shares outstanding plus shares underlying outstanding stock awards totaled 490 million, 483 million, and 476 million, as of December 31, 2015, 2014, and 2013. These totals include all vested and unvested stock awards outstanding, including those awards we estimate will be forfeited.

Stock Repurchase Activity

In January 2010, our Board of Directors authorized the Company to repurchase up to $2.0 billion of our common stock with no fixed expiration. We have $763 million remaining under the $2.0 billion repurchase program.

Stock Award Plans

Employees vest in restricted stock unit awards and stock options over the corresponding service term, generally between two and five years.

Stock Award Activity

Stock options outstanding, which were primarily obtained through acquisitions, totaled 0.2 million, 0.4 million and 0.2 million, as of December 31, 2015, 2014, and 2013. The compensation expense for stock options, the total intrinsic value for stock options outstanding, the amount of cash received from the exercise of stock options, and the related tax benefits were not material for 2015, 2014, and 2013.

The following table summarizes our restricted stock unit activity (in millions):

	Number of Units	Weighted Average Grant-Date Fair Value
Outstanding as of January 1, 2013	15.4	$ 184
Units granted	7.2	283
Units vested	(4.5)	160
Units forfeited	(1.8)	209
Outstanding as of December 31, 2013	16.3	233
Units granted	8.5	328
Units vested	(5.1)	202
Units forfeited	(2.3)	264
Outstanding as of December 31, 2014	17.4	285
Units granted	9.8	426
Units vested	(5.6)	253
Units forfeited	(2.7)	321
Outstanding as of December 31, 2015	18.9	$ 362

Scheduled vesting for outstanding restricted stock units as of December 31, 2015, is as follows (in millions):

	Year Ended December 31,					
2016	2017	2018	2019	2020	Thereafter	Total

COEX
8.186

Scheduled vesting—restricted stock units	6.4	7.0	3.6	1.6	0.1	0.2	18.9

As of December 31, 2015, there was $3.1 billion of net unrecognized compensation cost related to unvested stock-based compensation arrangements. This compensation is recognized on an accelerated basis with approximately half of the compensation expected to be expensed in the next twelve months, and has a weighted-average recognition period of 1.1 years.

During 2015, 2014, and 2013, the fair value of restricted stock units that vested was $2.7 billion, $1.7 billion, and $1.4 billion.

As matching contributions under our 401(k) savings plan, we granted 0.2 million shares of common stock in 2015 and 2014. Shares granted as matching contributions under our 401(k) plan are included in outstanding common stock when issued, and recorded as stock-based compensation expense.

Common Stock Available for Future Issuance

As of December 31, 2015, common stock available for future issuance to employees is 130 million shares.

Note 9—ACCUMULATED OTHER COMPREHENSIVE LOSS

Changes in the composition of accumulated other comprehensive loss for 2015, 2014, and 2013 are as follows (in millions):

	Foreign currency translation adjustments	Unrealized gains on available-for-sale securities	Total
Balances as of January 1, 2013	$ (250)	$ 11	$ (239)
Other comprehensive income (loss)	63	(9)	54
Balances as of December 31, 2013	(187)	2	(185)
Other comprehensive income (loss)	(325)	(1)	(326)
Balances as of December 31, 2014	(512)	1	(511)
Other comprehensive income (loss)	(210)	(2)	(212)
Balances as of December 31, 2015	$ (722)	$ (1)	$ (723)

Amounts included in accumulated other comprehensive loss are recorded net of their related income tax effects.

Note 10—INCOME TAXES

In 2015, 2014, and 2013, we recorded net tax provisions of $950 million, $167 million, and $161 million. We have tax benefits relating to excess stock-based compensation deductions and accelerated depreciation deductions that are being utilized to reduce our U.S. taxable income. In December 2015, U.S. legislation was enacted that extended accelerated depreciation deductions on qualifying property through 2019 and made permanent the U.S. federal research and development credit. As such, cash taxes paid, net of refunds, were $273 million, $177 million, and $169 million for 2015, 2014, and 2013.

The components of the provision for income taxes, net are as follows (in millions):

	Year Ended December 31,		
	2015	2014	2013
Current taxes:			
U.S. Federal	$ 215	$ 214	$ 99
U.S. State	237	65	45
International	417	204	173
Current taxes	869	483	317
Deferred taxes:			
U.S. Federal	473	(125)	(114)
U.S. State	(171)	(11)	(19)
International	(221)	(180)	(23)
Deferred taxes	81	(316)	(156)
Provision for income taxes, net	$ 950	$ 167	$ 161

U.S. and international components of income before income taxes are as follows (in millions):

	Year Ended December 31,		
	2015	2014	2013
U.S.	$ 2,186	$ 292	$ 704
International	(618)	(403)	(198)
Income (loss) before income taxes	$ 1,568	$ (111)	$ 506

The items accounting for differences between income taxes computed at the federal statutory rate and the provision recorded for income taxes are as follows (in millions):

	Year Ended December 31,		
	2015	2014	2013
Income taxes computed at the federal statutory rate	$ 549	$ (39)	$ 177
Effect of:			
Impact of foreign tax differential	350	136	(41)
State taxes, net of federal benefits	37	29	14
Tax credits	(99)	(85)	(84)
Nondeductible compensation	149	117	86
Domestic production activities deduction	(44)	(20)	(11)
Other, net	8	29	20
Total	$ 950	$ 167	$ 161

Our provision for income taxes in 2015 was higher than in 2014 primarily due to an increase in U.S. pre-tax income and increased losses in certain foreign subsidiaries for which we may not realize a tax benefit. Losses for which we may not realize a related tax benefit, primarily due to losses of foreign subsidiaries, reduce our pre-tax income without a corresponding reduction in our tax expense, and therefore increase our effective tax rate. We have recorded valuation allowances against the deferred tax assets associated with losses for which we may not realize a related tax benefit. We generated income in lower tax jurisdictions primarily related to our European operations, which are headquartered in Luxembourg.

Our provision for income taxes in 2014 was higher than in 2013 primarily due to the increased losses in certain foreign subsidiaries for which we may not realize a tax benefit and audit-related developments, partially offset by the favorable impact of earnings in lower tax rate jurisdictions. Losses for which we may not realize a related tax benefit were primarily generated by our foreign subsidiaries. Income earned in lower tax jurisdictions was primarily related to our European operations.

Except as required under U.S. tax laws, we do not provide for U.S. taxes on our undistributed earnings of foreign subsidiaries that have not been previously taxed since we intend to invest such undistributed earnings indefinitely outside of the U.S. If our intent changes or if these funds are needed for our U.S. operations, we would be required to accrue or pay U.S. taxes on some or all of these undistributed earnings and our effective tax rate would be adversely affected. Undistributed earnings of foreign subsidiaries that are indefinitely invested outside of the U.S were $1.5 billion as of December 31, 2015. Determination of the unrecognized deferred tax liability that would be incurred if such amounts were repatriated is not practicable.

Deferred income tax assets and liabilities are as follows (in millions):

	December 31,	
	2015	2014
Deferred tax assets (1):		
Net operating losses U.S. - Federal/States (2)	$ 107	$ 357
Net operating losses foreign (3)	856	669
Accrued liabilities, reserves, & other expenses	854	780
Stock-based compensation	727	534
Deferred revenue	189	156
Assets held for investment	148	154
Depreciation & amortization	222	117
Other items	268	125
Tax credits (4)	41	115
Total gross deferred tax assets	3,412	3,007
Less valuation allowance (5)	(1,069)	(901)
Deferred tax assets, net of valuation allowance	2,343	2,106
Deferred tax liabilities:		
Depreciation & amortization	(1,970)	(1,609)
Acquisition related intangible assets	(203)	(195)
Other items	(88)	(31)
Net deferred tax assets, net of valuation allowance	$ 82	$ 271

(1) Deferred tax assets related to net operating losses and tax credits are presented net of tax contingencies.
(2) Excluding $380 million and $261 million of deferred tax assets as of December 31, 2015 and 2014, related to net operating losses that result from excess stock-based compensation and for which any benefit realized will be recorded to stockholders' equity.
(3) Excluding $2 million of deferred tax assets as of December 31, 2015 and 2014, related to net operating losses that result from excess stock-based compensation and for which any benefit realized will be recorded to stockholders' equity.
(4) Excluding $447 million and $268 million of deferred tax assets as of December 31, 2015 and 2014, related to tax credits that result from excess stock-based compensation and for which any benefit realized will be recorded to stockholders' equity.
(5) Relates primarily to deferred tax assets that would only be realizable upon the generation of net income in certain foreign taxing jurisdictions and future capital gains.

As of December 31, 2015, our federal, foreign, and state net operating loss carryforwards for income tax purposes were approximately $1.1 billion, $3.4 billion, and $2.0 billion. The federal and state net operating loss carryforwards are subject to limitations under Section 382 of the Internal Revenue Code and applicable state tax law. If not utilized, a portion of the federal, foreign, and state net operating loss carryforwards will begin to expire in 2020, 2016, and 2016, respectively. As of December 31, 2015, our tax credit carryforwards for income tax purposes were approximately $725 million. If not utilized, a portion of the tax credit carryforwards will begin to expire in 2017.

The Company's consolidated balance sheets reflect deferred tax assets related to net operating losses and tax credit carryforwards excluding amounts resulting from excess stock-based compensation. Amounts related to excess stock-based compensation are accounted for as an increase to additional paid-in capital if and when realized through a reduction in income taxes payable.

Tax Contingencies

We are subject to income taxes in the U.S. (federal and state) and numerous foreign jurisdictions. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business,

there are many transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when we believe that certain positions might be challenged despite our belief that our tax return positions are fully supportable. We adjust these reserves in light of changing facts and circumstances, such as the outcome of tax audits. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

The reconciliation of our tax contingencies is as follows (in millions):

	December 31,		
	2015	2014	2013
Gross tax contingencies – January 1	$ 710	$ 407	$ 294
Gross increases to tax positions in prior periods	254	351	78
Gross decreases to tax positions in prior periods	(22)	(50)	(18)
Gross increases to current period tax positions	242	20	54
Audit settlements paid	—	(16)	(1)
Lapse of statute of limitations	(3)	(2)	—
Gross tax contingencies – December 31 (1)	$ 1,181	$ 710	$ 407

(1) As of December 31, 2015, we had $1.2 billion of tax contingencies, of which $882 million, if fully recognized, would decrease our effective tax rate.

As of December 31, 2015 and 2014, we had accrued interest and penalties, net of federal income tax benefit, related to tax contingencies of $59 million and $41 million. Interest and penalties, net of federal income tax benefit, recognized for the years ended December 31, 2015, 2014, and 2013 was $18 million, $8 million, and $8 million.

We are under examination, or may be subject to examination, by the Internal Revenue Service (“IRS”) for the calendar year 2005 and thereafter. These examinations may lead to ordinary course adjustments or proposed adjustments to our taxes or our net operating losses with respect to years under examination as well as subsequent periods. As previously disclosed, we have received Notices of Proposed Adjustment from the IRS for transactions undertaken in the 2005 and 2006 calendar years relating to transfer pricing with our foreign subsidiaries. The IRS is seeking to increase our U.S. taxable income by an amount that would result in additional federal tax of approximately $1.5 billion, subject to interest. To date, we have not resolved this matter administratively and are currently contesting it in U.S. Tax Court. We continue to disagree with these IRS positions and intend to defend ourselves vigorously in this matter. In addition to the risk of additional tax for 2005 and 2006 transactions, if this litigation is adversely determined or if the IRS were to seek transfer pricing adjustments of a similar nature for transactions in subsequent years, we could be subject to significant additional tax liabilities.

Certain of our subsidiaries are under examination or investigation or may be subject to examination or investigation by the French Tax Administration (“FTA”) for calendar year 2006 and thereafter. These examinations may lead to ordinary course adjustments or proposed adjustments to our taxes. In September 2012, we received proposed tax assessment notices for calendar years 2006 through 2010 relating to the allocation of income between foreign jurisdictions. In June 2015, we received final tax collection notices for these years assessing additional French tax of €196 million, including interest and penalties through September 2012. We disagree with the assessment and intend to contest it vigorously. We plan to pursue all available administrative remedies at the FTA, and if we are not able to resolve this matter with the FTA, we plan to pursue judicial remedies. In addition to the risk of additional tax for years 2006 through 2010, if this litigation is adversely determined or if the FTA were to seek adjustments of a similar nature for subsequent years, we could be subject to significant additional tax liabilities. In addition, in October 2014, the European Commission opened a formal investigation to examine whether decisions by the tax authorities in Luxembourg with regard to the corporate income tax paid by certain of our subsidiaries comply with European Union rules on state aid. If this matter is adversely resolved, Luxembourg may be required to assess, and we may be required to pay, additional amounts with respect to current and prior periods and our taxes in the future could increase. We are also subject to taxation in various states and other foreign jurisdictions including Canada, China, Germany, India, Japan, Luxembourg, and the United Kingdom. We are under, or may be subject to, audit or examination and additional assessments in respect of these particular jurisdictions for 2003 and thereafter.

We expect the total amount of tax contingencies will grow in 2016. In addition, changes in state, federal, and foreign tax laws may increase our tax contingencies. The timing of the resolution of income tax examinations is highly uncertain, and the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ from the amounts accrued. It is reasonably possible that within the next 12 months we will receive additional assessments by various tax authorities or possibly reach resolution of income tax examinations in one or more jurisdictions. These assessments or settlements may or may not result in changes to our contingencies related to positions on tax filings in years through 2015. The actual amount of any change could vary significantly depending on the ultimate timing and nature of any settlements. We cannot currently provide an estimate of the range of possible outcomes.

Note 11—SEGMENT INFORMATION

Beginning in the first quarter of 2015, we changed our reportable segments to North America, International, and AWS. These segments reflect the way the Company evaluates its business performance and manages its operations.

We allocate to segment results the operating expenses "Fulfillment," "Marketing," "Technology and content," and "General and administrative" based on usage, which is generally reflected in the segment in which the costs are incurred. The majority of technology infrastructure costs are allocated to the AWS segment based on usage. The majority of the remaining non-infrastructure technology costs are incurred in the U.S. and are allocated to our North America segment. We exclude from our allocations the portions of these operating expense lines attributable to stock-based compensation. We do not allocate the line item "Other operating expense (income), net" to our segment operating results. There are no internal revenue transactions between our reportable segments.

North America

The North America segment consists primarily of amounts earned from retail sales of consumer products (including from sellers) and subscriptions through North America-focused websites such as www.amazon.com, www.amazon.ca, and www.amazon.com.mx. This segment includes export sales from these websites.

International

The International segment consists primarily of amounts earned from retail sales of consumer products (including from sellers) and subscriptions through internationally-focused websites such as www.amazon.com.au, www.amazon.com.br, www.amazon.cn, www.amazon.fr, www.amazon.de, www.amazon.in, www.amazon.it, www.amazon.co.jp, www.amazon.nl, www.amazon.es, and www.amazon.co.uk. This segment includes export sales from these internationally-focused websites (including export sales from these sites to customers in the U.S., Mexico, and Canada), but excludes export sales from our North American websites.

AWS

The AWS segment consists of amounts earned from global sales of compute, storage, database, and other AWS service offerings for start-ups, enterprises, government agencies, and academic institutions.

Information on reportable segments and reconciliation to consolidated net income (loss) is as follows (in millions):

	Year Ended December 31,		
	2015	2014	2013
North America			
Net sales	$ 63,708	$ 50,834	$ 41,410
Segment operating expenses (1)	60,957	49,542	40,244
Segment operating income (loss)	$ 2,751	$ 1,292	$ 1,166
International			
Net sales	$ 35,418	$ 33,510	$ 29,934
Segment operating expenses (1)	35,509	33,654	29,780
Segment operating income (loss)	$ (91)	$ (144)	$ 154
AWS			
Net sales	$ 7,880	$ 4,644	$ 3,108
Segment operating expenses (1)	6,017	3,984	2,435
Segment operating income (loss)	$ 1,863	$ 660	$ 673
Consolidated			
Net sales	$ 107,006	$ 88,988	$ 74,452
Segment operating expenses (1)	102,483	87,180	72,459
Segment operating income (loss)	4,523	1,808	1,993
Stock-based compensation	(2,119)	(1,497)	(1,134)
Other operating income (expense), net	(171)	(133)	(114)
Income from operations	2,233	178	745
Total non-operating income (expense)	(665)	(289)	(239)
Provision for income taxes	(950)	(167)	(161)
Equity-method investment activity, net of tax	(22)	37	(71)
Net income (loss)	$ 596	$ (241)	$ 274

(1) Excludes stock-based compensation and “Other operating expense (income), net,” which are not allocated to segments.

We have aggregated our products and services into groups of similar products and services and provided the supplemental disclosure of net sales (in millions) below. We evaluate whether additional disclosure is appropriate when a product or service category begins to approach a significant level of net sales. For the periods presented, no individual product or service represented more than 10% of net sales.

	Year Ended December 31,		
	2015	2014	2013
Net Sales:			
Media	$ 22,509	$ 22,505	$ 21,716
Electronics and other general merchandise	75,597	60,886	48,802
AWS	7,880	4,644	3,108
Other (1)	1,020	953	826
	$ 107,006	$ 88,988	$ 74,452

(1) Includes sales from non-retail activities, such as certain advertising services, and our co-branded credit card agreements.

Net sales generated from our internationally-focused websites are denominated in local functional currencies. Revenues are translated at average rates prevailing throughout the period. Net sales attributed to countries that represent a significant portion of consolidated net sales are as follows (in millions):

	Year Ended December 31,		
	2015	2014	2013
United States	$ 70,537	$ 54,717	$ 43,959
Germany	11,816	11,919	10,535
United Kingdom	9,033	8,341	7,291
Japan	8,264	7,912	7,639
Rest of world	7,356	6,099	5,028
Consolidated	$ 107,006	$ 88,988	$ 74,452

Total segment assets exclude corporate assets, such as cash and cash equivalents, marketable securities, other long-term investments, corporate facilities, goodwill and other acquired intangible assets, capitalized internal-use software and website development costs, and tax assets. Technology infrastructure assets are allocated among the segments based on usage, with the majority allocated to the AWS segment. Total segment assets reconciled to consolidated amounts are as follows (in millions):

	December 31,		
	2015	2014	2013
North America (1)	$ 16,772	$ 13,257	$ 9,991
International (1)	7,754	6,747	6,199
AWS (2)	9,787	6,981	3,840
Corporate	31,131	27,520	20,129
Consolidated	$ 65,444	$ 54,505	$ 40,159

(1) North America and International segment assets primarily consist of inventory, accounts receivable, and property and equipment.
(2) AWS segment assets primarily consist of property and equipment and accounts receivable.

Property and equipment, net by segment is as follows (in millions):

	December 31,		
	2015	2014	2013
North America	$ 6,707	$ 5,373	$ 3,477
International	2,266	2,000	1,549
AWS	8,356	6,043	3,253
Corporate	4,509	3,551	2,670
Consolidated	$ 21,838	$ 16,967	$ 10,949

Total property and equipment additions by segment are as follows (in millions):

	Year Ended December 31,		
	2015	2014	2013
North America (1)	$ 2,485	$ 2,833	$ 2,326
International (1)	658	767	851
AWS (2)	4,681	4,295	2,215
Corporate	1,801	1,586	981
Consolidated	$ 9,625	$ 9,481	$ 6,373

(1) Includes property and equipment added under capital leases of $938 million, $887 million, and $555 million in 2015, 2014, and 2013, and under other financing arrangements of $219 million, $599 million, and $715 million in 2015, 2014, and 2013.

(2) Includes property and equipment added under capital leases of $3.7 billion, $3.0 billion, and $1.3 billion in 2015, 2014, and 2013 and under finance leases of $81 million, $62 million, and $67 million in 2015, 2014, and 2013.

U.S. property and equipment, net was $16.8 billion, $13.1 billion, and $8.4 billion, in 2015, 2014, and 2013, and rest of world property and equipment, net was $5.0 billion, $3.8 billion, and $2.5 billion in 2015, 2014, and 2013. Except for the U.S., property and equipment, net, in any single country was less than 10% of consolidated property and equipment, net.

Depreciation expense, including amortization of capitalized internal-use software and website development costs and other corporate property and equipment depreciation expense, are allocated to all segments based on usage. Total depreciation expense, by segment, is as follows (in millions):

	Year Ended December 31,		
	2015	2014	2013
North America	$ 1,551	$ 1,203	$ 914
International	822	740	583
AWS	2,576	1,673	963
Consolidated	$ 4,949	$ 3,616	$ 2,460

Note 12—QUARTERLY RESULTS (UNAUDITED)

The following tables contain selected unaudited statement of operations information for each quarter of 2015 and 2014. The following information reflects all normal recurring adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period. Our business is affected by seasonality, which historically has resulted in higher sales volume during our fourth quarter. Unaudited quarterly results are as follows (in millions, except per share data):

	Year Ended December 31, 2015 (1)			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net sales	$ 35,747	$ 25,358	$ 23,185	$ 22,717
Income (loss) from operations	1,108	406	464	255
Income (loss) before income taxes	938	247	362	21
Provision for income taxes	(453)	(161)	(266)	(71)
Net income (loss)	482	79	92	(57)
Basic earnings per share	1.03	0.17	0.20	(0.12)
Diluted earnings per share	1.00	0.17	0.19	(0.12)
Shares used in computation of earnings per share:				
Basic	470	468	467	465
Diluted	481	478	476	465

	Year Ended December 31, 2014 (1)			
	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net sales	$ 29,328	$ 20,579	$ 19,340	$ 19,741
Income (loss) from operations	591	(544)	(15)	146
Income (loss) before income taxes	429	(634)	(27)	120
Benefit (provision) for income taxes	(205)	205	(94)	(73)
Net income (loss)	214	(437)	(126)	108
Basic earnings per share	0.46	(0.95)	(0.27)	0.23
Diluted earnings per share	0.45	(0.95)	(0.27)	0.23
Shares used in computation of earnings per share:				
Basic	464	463	461	460
Diluted	472	463	461	468

(1) The sum of quarterly amounts, including per share amounts, may not equal amounts reported for year-to-date periods. This is due to the effects of rounding and changes in the number of weighted-average shares outstanding for each period.

Item 9. ***Changes in and Disagreements with Accountants On Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

We carried out an evaluation required by the Securities Exchange Act of 1934 (the "1934 Act"), under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-15(e) of the 1934 Act, as of December 31, 2015. Based on this evaluation, our principal executive officer and principal financial officer concluded that, as of December 31, 2015, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the 1934 Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms and to provide reasonable assurance that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

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) of the 1934 Act. Management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2015 based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. As a result of this assessment, management concluded that, as of December 31, 2015, our internal control over financial reporting was effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Ernst & Young has independently assessed the effectiveness of our internal control over financial reporting and its report is included below.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Limitations on Controls

Our disclosure controls and procedures and internal control over financial reporting are designed to provide reasonable assurance of achieving their objectives as specified above. Management does not expect, however, that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and fraud. Any control system, no matter how well designed and operated, is based upon certain assumptions and can provide only reasonable, not absolute, assurance that its objectives will be met. Further, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, within the Company have been detected.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Amazon.com, Inc.

We have audited Amazon.com, Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Amazon.com, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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.

In our opinion, Amazon.com, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Amazon.com, Inc. as of December 31, 2015 and 2014, and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015 of Amazon.com, Inc. and our report dated January 28, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Seattle, Washington
January 28, 2016

Item 9B. ***Other Information***

None.

PART III

Item 10. ***Directors, Executive Officers, and Corporate Governance***

Information regarding our Executive Officers required by Item 10 of Part III is set forth in Item 1 of Part I "Business —Executive Officers of the Registrant." Information required by Item 10 of Part III regarding our Directors and any material changes to the process by which security holders may recommend nominees to the Board of Directors is included in our Proxy Statement relating to our 2016 Annual Meeting of Shareholders, and is incorporated herein by reference. Information relating to our Code of Business Conduct and Ethics and to compliance with Section 16(a) of the 1934 Act is set forth in our Proxy Statement relating to our 2016 Annual Meeting of Shareholders and is incorporated herein by reference. To the extent permissible under NASDAQ rules, we intend to disclose amendments to our Code of Business Conduct and Ethics, as well as waivers of the provisions thereof, on our investor relations website under the heading "Corporate Governance" at www.amazon.com/ir.

Item 11. ***Executive Compensation***

Information required by Item 11 of Part III is included in our Proxy Statement relating to our 2016 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters***

Information required by Item 12 of Part III is included in our Proxy Statement relating to our 2016 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

Information required by Item 13 of Part III is included in our Proxy Statement relating to our 2016 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

Information required by Item 14 of Part III is included in our Proxy Statement relating our 2016 Annual Meeting of Shareholders and is incorporated herein by reference.

PART IV

Item 15. ***Exhibits, Financial Statement Schedules***

(a) *List of Documents Filed as a Part of This Report:*

(1) *Index to Consolidated Financial Statements:*

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

Consolidated Statements of Cash Flows for each of the three years ended December 31, 2015

Consolidated Statements of Operations for each of the three years ended December 31, 2015

Consolidated Statements of Comprehensive Income (Loss) for each of the three years ended December 31, 2015

Consolidated Balance Sheets as of December 31, 2015 and 2014

Consolidated Statements of Stockholders' Equity for each of the three years ended December 31, 2015

Notes to Consolidated Financial Statements

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

(2) *Index to Financial Statement Schedules:*

All schedules have been omitted because the required information is included in the consolidated financial statements or the notes thereto, or because it is not required.

(3) *Index to Exhibits*

See exhibits listed under the Exhibit Index below.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized, as of January 28, 2016.

AMAZON.COM, INC.

By: /s/ Jeffrey P. Bezos

Jeffrey P. Bezos

President, Chief Executive Officer, and Chairman of the Board

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of January 28, 2016.

Signature	Title
/s/ Jeffrey P. Bezos **Jeffrey P. Bezos**	Chairman of the Board, President, and Chief Executive Officer (Principal Executive Officer)
/s/ Brian T. Olsavsky **Brian T. Olsavsky**	Senior Vice President and Chief Financial Officer (Principal Financial Officer)
/s/ Shelley Reynolds **Shelley Reynolds**	Vice President, Worldwide Controller (Principal Accounting Officer)
/s/ Tom A. Alberg **Tom A. Alberg**	Director
/s/ John Seely Brown **John Seely Brown**	Director
/s/ William B. Gordon **William B. Gordon**	Director
/s/ Jamie S. Gorelick **Jamie S. Gorelick**	Director
/s/ Judith A. McGrath **Judith A. McGrath**	Director
/s/ Alain Monié **Alain Monié**	Director

/s/ Jonathan J. Rubinstein

Jonathan J. Rubinstein Director

/s/ Thomas O. Ryder

Thomas O. Ryder Director

/s/ Patricia Q. Stonesifer

Patricia Q. Stonesifer Director

EXHIBIT INDEX

Exhibit Number	Description
2.1	Form of Purchase and Sale Agreement dated as of October 1, 2012, between Acorn Development LLC, a wholly owned subsidiary of the Company, and Lake Union III LLC, Lake Union IV LLC, City Place V LLC, City Place II LLC, City Place III LLC, City Place IV LLC, and City Place V LLC, respectively (incorporated by reference to the Company's Annual Report on Form 10-K for the Year ended December 31, 2012).
3.1	Restated Certificate of Incorporation of the Company (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2000).
3.2	Amended and Restated Bylaws of the Company (incorporated by reference to the Company's Current Report on Form 8-K, filed February 18, 2009).
4.1	Indenture, dated as of November 29, 2012, between Amazon.com, Inc. and Wells Fargo Bank, National Association, as trustee, and Form of 0.650% Note due 2015, Form of 1.200% Note due 2017, and Form of 2.500% Note due 2022 (incorporated by reference to the Company's Current Report on Form 8-K, filed November 29, 2012).
4.2	Officers' Certificate Establishing the Terms of Notes, dated as of December 5, 2014, containing Form of 2.600% Note due 2019, Form of 3.300% Note due 2021, Form of 3.800% Note due 2024, Form of 4.800% Note due 2034, and Form of 4.950% Note due 2044 (incorporated by reference to the Company's Current Report on Form 8-K, filed December 5, 2014).
10.1†	1997 Stock Incentive Plan (amended and restated) (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2013).
10.2†	1999 Nonofficer Employee Stock Option Plan (amended and restated) (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2013).
10.3†	Offer Letter of Employment to Diego Piacentini, dated January 17, 2000 (incorporated by reference to the Company's Annual Report on Form 10-K for the Year ended December 31, 2000).
10.4†	Form of Indemnification Agreement between the Company and each of its Directors (incorporated by reference to the Company's Registration Statement on Form S-1 (Registration No. 333-23795) filed March 24, 1997).
10.5†	Form of Restricted Stock Unit Agreement for Officers and Employees (incorporated by reference to the Company's Annual Report on Form 10-K for the Year ended December 31, 2002).
10.6†	Form of Restricted Stock Unit Agreement for Directors (incorporated by reference to the Company's Annual Report on Form 10-K for the Year ended December 31, 2002).
10.7†	Form of Restricted Stock Agreement (incorporated by reference to the Company's Annual Report on Form 10-K for the Year ended December 31, 2001).
10.8†	Form of Global Restricted Stock Unit Award Agreement for Executive Officers (incorporated by reference to the Company's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2014).
10.9	Credit Agreement, dated as of September 5, 2014, among Amazon.com, Inc., Bank of America, N.A., as administrative agent, and the other lenders party thereto, and conformed page thereto (incorporated by reference to the Company's Current Report on Form 8-K, filed September 5, 2014, and Quarterly Report on Form 10-Q for the

Quarter ended September 30, 2014, respectively).

12.1 Computation of Ratio of Earnings to Fixed Charges.

21.1 List of Significant Subsidiaries.

23.1 Consent of Independent Registered Public Accounting Firm.

31.1 Certification of Jeffrey P. Bezos, Chairman and Chief Executive Officer of Amazon.com, Inc., pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.

31.2 Certification of Brian T. Olsavsky, Senior Vice President and Chief Financial Officer of Amazon.com, Inc., pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.

32.1	Certification of Jeffrey P. Bezos, Chairman and Chief Executive Officer of Amazon.com, Inc., pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Brian T. Olsavsky, Senior Vice President and Chief Financial Officer of Amazon.com, Inc., pursuant to 18 U.S.C. Section 1350.
101	The following financial statements from the Company's Annual Report on Form 10-K for the year ended December 31, 2015, formatted in XBRL: (i) Consolidated Statements of Cash Flows, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Balance Sheets, (v) Consolidated Statements of Stockholders' Equity, and (vi) Notes to Consolidated Financial Statements, tagged as blocks of text and including detailed tags.

---

† Executive Compensation Plan or Agreement

Exhibit 12.1

Ratio of Earnings to Fixed Charges
(in millions)

	Year Ended December 31,				
	2015	2014	2013	2012	2011
Earnings available for fixed charges:					
Income (loss) before income taxes	$ 1,568	$ (111)	$ 506	$ 544	$ 934
Fixed charges, excluding capitalized interest	547	283	197	133	108
Total earnings available for fixed charges	$ 2,115	$ 172	$ 703	$ 677	$ 1,042
Fixed charges:					
Interest and debt expense (1)	$ 484	$ 215	$ 143	$ 93	$ 65
Assumed interest element included in rent expense	88	74	57	41	43
Total fixed charges	$ 572	$ 289	$ 200	$ 134	$ 108
Ratio of earnings to fixed charges (2)	3.70	—	3.52	5.07	9.61

(1) Includes amortization of debt-related expenses plus interest capitalized during the period.
(2) In 2014, our earnings were insufficient to cover fixed charges by $117 million.

Exhibit 21.1

AMAZON.COM, INC.
LIST OF SIGNIFICANT SUBSIDIARIES

Legal Name	Jurisdiction	Percent Owned
Amazon Services LLC	Nevada	100%
Amazon Digital Services LLC	Delaware	100%
Amazon Web Services, Inc.	Delaware	100%
Amazon EU S.à r.l.	Luxembourg	100%
Amazon Europe Holding Technologies SCS	Luxembourg	100%
Amazon Fulfillment Services, Inc.	Delaware	100%
Amazon Services International, Inc.	Delaware	100%
Amazon Corporate LLC	Delaware	100%
Amazon Technologies, Inc.	Nevada	100%
Amazon.com Int’l Sales, Inc.	Delaware	100%
Amazon.com LLC	Delaware	100%

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(a) Registration Statement (Form S-4 No. 333-55943), as amended, pertaining to the acquisition shelf-registration of up to 30 million shares of common stock,

(b) Registration Statement (Form S-8 No. 333-28763), as amended, pertaining to the Amazon.com, Inc. 1997 Stock Incentive Plan (formerly the "1997 Stock Option Plan") and the Amended and Restated 1994 Stock Option Plan of Amazon.com, Inc.,

(c) Registration Statement (Form S-8 No. 333-88825) pertaining to the Convergence Corporation Stock Option Plan,

(d) Registration Statement (Form S-8 No. 333-80491) pertaining to the Alexa Internet Amended and Restated 1997 Stock Option Plan,

(e) Registration Statement (Form S-8 No. 333-80495) pertaining to the Accept.com Financial Services Corporation 1998 Stock Plan,

(f) Registration Statement (Form S-8 No. 333-78651) pertaining to the Innerlinx Technologies, Incorporated 1997 Stock Option Plan,

(g) Registration Statement (Form S-8 No. 333-78653) pertaining to the e-Niche Incorporated Amended and Restated 1998 Stock Option and Grant Plan,

(h) Registration Statement (Form S-8 No. 333-74419) pertaining to the Amazon.com, Inc. 1999 Nonofficer Employee Stock Option Plan,

(i) Registration Statement (Form S-8 No. 333-63311), as amended, pertaining to the Junglee Corp. 1996 Stock Plan, the Junglee Corp. 1998 Equity Incentive Plan, the Sage Enterprises, Inc. 1997 Amended Stock Option Plan, and the Sage Enterprises, Inc. MVP Stock Option Plan,

(j) Registration Statement (Form S-8 No. 333-118818) pertaining to the Joyo.com Limited 2004 Share Option Plan,

(k) Registration Statement (Form S-8 No. 333-149845) pertaining to the Audible, Inc. 1999 Stock Incentive Plan,

(l) Registration Statement (Form S-8 POS No. 333-160831) pertaining to the Zappos.com, Inc. 2009 Stock Plan,

(m) Registration Statement (Form S-8 No. 333-169470) pertaining to 25,000,000 shares of Common Stock, par value $0.01 per share, to be issued pursuant to the Company's 1997 Stock Incentive Plan,

(n) Registration Statement (Form S-8 No. 333-173054), pertaining to the Quidsi, Inc. (fka1800Diapers, Inc.) 2006 Stock Option/Stock Issuance Plan,

(o) Registration Statement (Form S-8 No. 333-181073) pertaining to the Kiva Systems, Inc. 2003 Stock Plan, as amended,

(p) Registration Statement (Form S-3 No. 333-185137) pertaining to the shelf-registration of Amazon.com, Inc. securities,

(q) Registration Statement (Form S-8 No. 333-199572) pertaining to the Twitch Interactive, Inc. Amended and Restated 2007 Stock Plan, and

(r) Registration Statement (Form S-8 No. 333-207591) pertaining to the Elemental Technologies, Inc. 2006 Stock Incentive Plan, as amended and restated.

of our reports dated January 28, 2016, with respect to the consolidated financial statements of Amazon.com, Inc. and the effectiveness of internal control over financial reporting of Amazon.com, Inc. included in this Annual Report (Form 10-K) of Amazon.com, Inc. for the year ended December 31, 2015.

/s/ Ernst & Young LLP

Seattle, Washington
January 28, 2016

Exhibit 31.1

CERTIFICATIONS

I, Jeffrey P. Bezos, certify that:

1. I have reviewed this Form 10-K of Amazon.com, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jeffrey P. Bezos

Jeffrey P. Bezos

Chairman and Chief Executive Officer
(Principal Executive Officer)

Date: January 28, 2016

Exhibit 31.2

CERTIFICATIONS

I, Brian T. Olsavsky, certify that:

1. I have reviewed this Form 10-K of Amazon.com, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Brian T. Olsavsky

Brian T. Olsavsky

Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: January 28, 2016

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350

In connection with the Annual Report of Amazon.com, Inc. (the "Company") on Form 10-K for the year ended December 31, 2015, as filed with the Securities and Exchange Commission (the "SEC") on or about the date hereof (the "Report"), I, Jeffrey P. Bezos, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

/s/ Jeffrey P. Bezos

Jeffrey P. Bezos

Chairman and Chief Executive Officer

(Principal Executive Officer)

Date: January 28, 2016

Exhibit 32.2

Certification Pursuant to 18 U.S.C. Section 1350

In connection with the Annual Report of Amazon.com, Inc. (the "Company") on Form 10-K for the year ended December 31, 2015 as filed with the Securities and Exchange Commission (the "SEC") on or about the date hereof (the "Report"), I, Brian T. Olsavsky, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

/s/ Brian T. Olsavsky

Brian T. Olsavsky
Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

Date: January 28, 2016

COEX-8.187

COEX
8.187

Table of Contents

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 26, 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: 001-36743

Apple Inc.

(Exact name of Registrant as specified in its charter)

California	**94-2404110**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1 Infinite Loop **Cupertino, California**	**95014**
(Address of principal executive offices)	(Zip Code)

(408) 996-1010

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.00001 par value per share	**The NASDAQ Stock Market LLC**
1.000% Notes due 2022	**New York Stock Exchange LLC**
1.625% Notes due 2026	**New York Stock Exchange LLC**
3.05% Notes due 2029	**New York Stock Exchange LLC**
3.60% Notes due 2042	**New York Stock Exchange LLC**
1.375% Notes due 2024	**New York Stock Exchange LLC**
2.000% Notes due 2027	**New York Stock Exchange LLC**
(Title of class)	(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes x No ¨

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 ¨ No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files).

Yes x No ¨

Indicate by check mark if 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 amendment 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

COEX
8.187

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Act).

Yes ¨ No x

The aggregate market value of the voting and non-voting stock held by non-affiliates of the Registrant, as of March 27, 2015, the last business day of the Registrant's most recently completed second fiscal quarter, was approximately $709,923,000,000. Solely for purposes of this disclosure, shares of common stock held by executive officers and directors of the Registrant as of such date have been excluded because such persons may be deemed to be affiliates. This determination of executive officers and directors as affiliates is not necessarily a conclusive determination for any other purposes.

5,575,331,000 shares of common stock were issued and outstanding as of October 9, 2015.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement relating to its 2016 annual meeting of shareholders (the "2016 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated. The 2016 Proxy Statement will be filed with the U.S. Securities and Exchange Commission within 120 days after the end of the fiscal year to which this report relates.

Table of Contents

Apple Inc.
Form 10-K

For the Fiscal Year Ended September 26, 2015

TABLE OF CONTENTS

		Page
	Part I	
Item 1.	Business	1
Item 1A.	Risk Factors	8
Item 1B.	Unresolved Staff Comments	18
Item 2.	Properties	18
Item 3.	Legal Proceedings	18
Item 4.	Mine Safety Disclosures	18
	Part II	
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	19
Item 6.	Selected Financial Data	22
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	23
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	36
Item 8.	Financial Statements and Supplementary Data	38
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	71
Item 9A.	Controls and Procedures	71
Item 9B.	Other Information	71
	Part III	
Item 10.	Directors, Executive Officers and Corporate Governance	72
Item 11.	Executive Compensation	72
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	72
Item 13.	Certain Relationships and Related Transactions and Director Independence	72
Item 14.	Principal Accounting Fees and Services	72
	Part IV	
Item 15.	Exhibits, Financial Statement Schedules	73

Table of Contents

This Annual Report on Form 10-K ("Form 10-K") contains forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Many of the forward-looking statements are located in Part II, Item 7 of this Form 10-K under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as "future," "anticipates," "believes," "estimates," "expects," "intends," "will," "would," "could," "can," "may," and similar terms. Forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A of this Form 10-K under the heading "Risk Factors," which are incorporated herein by reference. All information presented herein is based on the Company's fiscal calendar. Unless otherwise stated, references to particular years, quarters, months or periods refer to the Company's fiscal years ended in September and the associated quarters, months and periods of those fiscal years. Each of the terms the "Company" and "Apple" as used herein refers collectively to Apple Inc. and its wholly-owned subsidiaries, unless otherwise stated. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

PART I

Item 1. Business

Company Background

The Company designs, manufactures and markets mobile communication and media devices, personal computers and portable digital music players, and sells a variety of related software, services, accessories, networking solutions and third-party digital content and applications. The Company's products and services include iPhone®, iPad®, Mac®, iPod®, Apple Watch®, Apple TV®, a portfolio of consumer and professional software applications, iOS, OS X® and watchOS™ operating systems, iCloud®, Apple Pay® and a variety of accessory, service and support offerings. In September 2015, the Company announced a new Apple TV, tvOS™ operating system and Apple TV App Store®, which are expected to be available by the end of October 2015. The Company sells and delivers digital content and applications through the iTunes Store®, App Store, Mac App Store, iBooks Store™ and Apple Music™ (collectively "Internet Services"). The Company sells its products worldwide through its retail stores, online stores and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers and value-added resellers. In addition, the Company sells a variety of third-party Apple compatible products, including application software and various accessories through its online and retail stores. The Company sells to consumers, small and mid-sized businesses and education, enterprise and government customers. The Company's fiscal year is the 52 or 53-week period that ends on the last Saturday of September. The Company is a California corporation established in 1977.

Business Strategy

The Company is committed to bringing the best user experience to its customers through its innovative hardware, software and services. The Company's business strategy leverages its unique ability to design and develop its own operating systems, hardware, application software and services to provide its customers products and solutions with innovative design, superior ease-of-use and seamless integration. As part of its strategy, the Company continues to expand its platform for the discovery and delivery of digital content and applications through its Internet Services, which allows customers to discover and download digital content, iOS, Mac and Apple Watch applications, and books through either a Mac or Windows-based computer or through iPhone, iPad and iPod touch® devices ("iOS devices") and Apple Watch. The Company also supports a community for the development of third-party software and hardware products and digital content that complement the Company's offerings. The Company believes a high-quality buying experience with knowledgeable salespersons who can convey the value of the Company's products and services greatly enhances its ability to attract and retain customers. Therefore, the Company's strategy also includes building and expanding its own retail and online stores and its third-party distribution network to effectively reach more customers and provide them with a high-quality sales and post-sales support experience. The Company believes ongoing investment in research and development ("R&D"), marketing and advertising is critical to the development and sale of innovative products and technologies.

Table of Contents

Business Organization

The Company manages its business primarily on a geographic basis. In 2015, the Company changed its reportable operating segments as management began reporting business performance and making decisions primarily on a geographic basis, including the results of its retail stores in each respective geographic segment. Accordingly, the Company's reportable operating segments consist of the Americas, Europe, Greater China, Japan and Rest of Asia Pacific. The Americas segment includes both North and South America. The Europe segment includes European countries, as well as India, the Middle East and Africa. The Greater China segment includes China, Hong Kong and Taiwan. The Rest of Asia Pacific segment includes Australia and those Asian countries not included in the Company's other reportable operating segments. Although each reportable operating segment provides similar hardware and software products and similar services, they are managed separately to better align with the location of the Company's customers and distribution partners and the unique market dynamics of each geographic region. Further information regarding the Company's reportable operating segments may be found in Part II, Item 7 of this Form 10-K under the subheading "Segment Operating Performance," and in Part II, Item 8 of this Form 10-K in the Notes to Consolidated Financial Statements in Note 11, "Segment Information and Geographic Data."

Products

iPhone

iPhone is the Company's line of smartphones based on its iOS operating system. iPhone includes Siri®, a voice activated intelligent assistant, and Apple Pay and Touch ID™ on qualifying devices. In September 2015, the Company introduced iPhone 6s and 6s Plus, featuring 3D Touch, which senses force to access features and interact with content and apps. iPhone works with the iTunes Store, App Store and iBooks Store for purchasing, organizing and playing digital content and apps. iPhone is compatible with both Mac and Windows personal computers and Apple's iCloud services, which provide synchronization across users' devices.

iPad

iPad is the Company's line of multi-purpose tablets based on its iOS operating system, which includes iPad Air® and iPad mini™. iPad includes Siri and also includes Touch ID on qualifying devices. In September 2015, the Company announced the new iPad Pro™, featuring a 12.9-inch Retina® display, which is expected to be available in November 2015. iPad works with the iTunes Store, App Store and iBooks Store for purchasing, organizing and playing digital content and apps. iPad is compatible with both Mac and Windows personal computers and Apple's iCloud services.

Mac

Mac is the Company's line of desktop and portable personal computers based on its OS X operating system. The Company's desktop computers include iMac®, 21.5" iMac with Retina 4K Display, 27" iMac with Retina 5K Display, Mac Pro® and Mac mini. The Company's portable computers include MacBook®, MacBook Air®, MacBook Pro® and MacBook Pro with Retina display.

Operating System Software

iOS

iOS is the Company's Multi-Touch™ operating system that serves as the foundation for iOS devices. Devices running iOS are compatible with both Mac and Windows personal computers and Apple's iCloud services. In September 2015, the Company released iOS 9, which provides more search abilities and improved Siri features. iOS 9 also introduced new multitasking features designed specifically for iPad, including Slide Over and Split View, which allow users to work with two apps simultaneously, and Picture-in-Picture that allows users to watch a video while using another application.

OS X

OS X is the Company's Mac operating system and is built on an open-source UNIX-based foundation and provides an intuitive and integrated computer experience. Support for iCloud is built into OS X so users can access content and information from Mac, iOS devices and other supported devices and access downloaded content and apps from the iTunes Store. OS X El Capitan, released in September 2015, is the 12th major release of OS X and incorporates additional window management features, including Split View and the new Spaces Bar in Mission Control®, which provides users an intuitive way to group applications.

Table of Contents

watchOS

watchOS is the Company's operating system for Apple Watch. Released in September 2015, watchOS 2 is the first major software update for Apple Watch, providing users with new features, including new watch faces, the ability to add third-party app information on watch faces, Time Travel, and additional communication capabilities in Mail, Friends and Digital Touch. watchOS 2 also gives developers the ability to build native apps for Apple Watch.

tvOS

In September 2015, the Company announced tvOS, its operating system for the new Apple TV, which is expected to be available at the end of October 2015. The tvOS operating system is based on the Company's iOS platform and will enable developers to create new apps and games specifically for Apple TV and deliver them to customers through the new Apple TV App Store.

Application Software

The Company's application software includes iLife ®, iWork ® and various other software, including Final Cut Pro®, Logic® Pro X and FileMaker® Pro. iLife is the Company's consumer-oriented digital lifestyle software application suite included with all Mac computers and features iMovie ®, a digital video editing application, and GarageBand®, a music creation application that allows users to play, record and create music. iWork is the Company's integrated productivity suite included with all Mac computers and is designed to help users create, present and publish documents through Pages®, presentations through Keynote® and spreadsheets through Numbers®. The Company also has Multi-Touch versions of iLife and iWork applications designed specifically for use on iOS devices, which are available as free downloads for all new iPhones and iPads.

Services

Internet Services

The iTunes Store, available for iOS devices, Mac and Windows personal computers and Apple TV, allows customers to purchase and download music and TV shows, rent or purchase movies and download free podcasts. The App Store, available for iOS devices, allows customers to discover and download apps and purchase in-app content. The Mac App Store, available for Mac computers, allows customers to discover, download and install Mac applications. The iBooks Store, available for iOS devices and Mac computers, features e-books from major and independent publishers. Apple Music offers users a curated listening experience with on-demand radio stations that evolve based on a user's play or download activity and a subscription-based internet streaming service that also provides unlimited access to the Apple Music library. In September 2015, the Company announced the Apple TV App Store, which provides customers access to apps and games specifically for the new Apple TV.

iCloud

iCloud is the Company's cloud service which stores music, photos, contacts, calendars, mail, documents and more, keeping them up-to-date and available across multiple iOS devices, Mac and Windows personal computers and Apple TV. iCloud services include iCloud Drive SM, iCloud Photo Library, Family Sharing, Find My iPhone, Find My Friends, Notes, iCloud Keychain® and iCloud Backup for iOS devices.

AppleCare

AppleCare® offers a range of support options for the Company's customers. These include assistance that is built into software products, printed and electronic product manuals, online support including comprehensive product information as well as technical assistance, the AppleCare Protection Plan ("APP") and the AppleCare+ Protection Plan ("AC+"). APP is a fee-based service that typically extends the service coverage of phone support, hardware repairs and dedicated web-based support resources for Mac, Apple TV and display products. AC+ is a fee-based service offering additional coverage under some circumstances for instances of accidental damage in addition to the services offered by APP and is available in certain countries for iPhone, iPad, Apple Watch and iPod.

Apple Pay

Apple Pay is the Company's mobile payment service available in the U.S. and U.K. that offers an easy, secure and private way to pay. Apple Pay allows users to pay for purchases in stores accepting contactless payments and to pay for purchases within participating apps on qualifying devices. Apple Pay accepts credit and debit cards across major card networks and also supports reward programs and store-issued credit and debit cards.

Table of Contents

Other Products

Accessories

The Company sells a variety of Apple-branded and third-party Mac-compatible and iOS-compatible accessories, including Apple TV, Apple Watch, headphones, displays, storage devices, Beats products, and various other connectivity and computing products and supplies.

Apple TV

Apple TV connects to consumers' TVs and enables them to access digital content directly for streaming high definition video, playing music and games, and viewing photos. Content from Apple Music and other media services are also available on Apple TV. Apple TV allows streaming digital content from Mac and Windows personal computers through Home Share and through AirPlay ® from compatible Mac and iOS devices. In September 2015, the Company announced the new Apple TV running on the Company's tvOS operating system and based on apps built for the television. Additionally, the new Apple TV remote features Siri, allowing users to search and access content with their voice. The new Apple TV is expected to be available at the end of October 2015.

Apple Watch

Apple Watch is a personal electronic device that combines the watchOS user interface and technologies created specifically for a smaller device, including the Digital Crown, a unique navigation tool that allows users to seamlessly scroll, zoom and navigate, and Force Touch, a technology that senses the difference between a tap and a press and allows users to access controls within apps. Apple Watch enables users to communicate in new ways from their wrist, track their health and fitness through activity and workout apps, and includes Siri and Apple Pay.

iPod

iPod is the Company's line of portable digital music and media players, which includes iPod touch, iPod nano ® and iPod shuffle®. All iPods work with iTunes to purchase and synchronize content. iPod touch, based on the Company's iOS operating system, is a flash-memory-based iPod that works with the iTunes Store, App Store and iBooks Store for purchasing and playing digital content and apps.

Developer Programs

The Company's developer programs support app developers with building, testing and distributing apps for iOS, Mac, Apple Watch and the new Apple TV. Developer program membership provides access to beta software, the ability to integrate advanced app capabilities (e.g., iCloud, Game Center and Apple Pay), distribution on the App Store, access to App Analytics, and code-level technical support. Developer programs also exist for businesses creating apps for internal use (the Apple Developer Enterprise Program) and developers creating accessories for Apple devices (the MFi Program). All developers, even those who are not developer program members, can sign in with their Apple ID to post on the Apple Developer Forums and use Xcode ®, the Company's integrated development environment for creating apps for Apple platforms. Xcode includes project management tools; analysis tools to collect, display and compare app performance data; simulation tools to locally run, test and debug apps; and tools to simplify the design and development of user interfaces. All developers also have access to extensive technical documentation and sample code.

Markets and Distribution

The Company's customers are primarily in the consumer, small and mid-sized business, education, enterprise and government markets. The Company sells its products and resells third-party products in most of its major markets directly to consumers and small and mid-sized businesses through its retail and online stores and its direct sales force. The Company also employs a variety of indirect distribution channels, such as third-party cellular network carriers, wholesalers, retailers and value-added resellers. During 2015, the Company's net sales through its direct and indirect distribution channels accounted for 26% and 74%, respectively, of total net sales.

The Company believes that sales of its innovative and differentiated products are enhanced by knowledgeable salespersons who can convey the value of the hardware and software integration and demonstrate the unique solutions that are available on its products. The Company further believes providing direct contact with its targeted customers is an effective way to demonstrate the advantages of its products over those of its competitors and providing a high-quality sales and after-sales support experience is critical to attracting new and retaining existing customers.

To ensure a high-quality buying experience for its products in which service and education are emphasized, the Company continues to build and improve its distribution capabilities by expanding the number of its own retail stores worldwide. The Company's retail stores are typically located at high-traffic locations in quality shopping malls and urban shopping districts. By operating its own stores and locating them in desirable high-traffic locations the Company is better positioned to ensure a high quality customer buying experience and attract

new customers. The stores are designed to simplify and enhance the presentation and marketing of the Company's products and related solutions. The retail stores employ experienced and knowledgeable personnel who provide product advice, service and training and offer a wide selection of third-party hardware, software and other accessories that complement the Company's products.

Table of Contents

The Company has also invested in programs to enhance reseller sales by placing high-quality Apple fixtures, merchandising materials and other resources within selected third-party reseller locations. Through the Apple Premium Reseller Program, certain third-party resellers focus on the Apple platform by providing a high level of product expertise, integration and support services.

The Company is committed to delivering solutions to help educators teach and students learn. The Company believes effective integration of technology into classroom instruction can result in higher levels of student achievement and has designed a range of products, services and programs to address the needs of education customers. The Company also supports mobile learning and real-time distribution of, and access to, education related materials through iTunes U, a platform that allows students and teachers to share and distribute educational media online. The Company sells its products to the education market through its direct sales force, select third-party resellers and its online and retail stores.

The Company also sells its hardware and software products to enterprise and government customers in each of its reportable operating segments. The Company's products are deployed in these markets because of their performance, productivity, ease of use and seamless integration into information technology environments. The Company's products are compatible with thousands of third-party business applications and services, and its tools enable the development and secure deployment of custom applications as well as remote device administration.

No single customer accounted for more than 10% of net sales in 2015, 2014 or 2013.

Competition

The markets for the Company's products and services are highly competitive and the Company is confronted by aggressive competition in all areas of its business. These markets are characterized by frequent product introductions and rapid technological advances that have substantially increased the capabilities and use of mobile communication and media devices, personal computers and other digital electronic devices. The Company's competitors that sell mobile devices and personal computers based on other operating systems have aggressively cut prices and lowered their product margins to gain or maintain market share. The Company's financial condition and operating results can be adversely affected by these and other industry-wide downward pressures on gross margins. Principal competitive factors important to the Company include price, product features (including security features), relative price and performance, product quality and reliability, design innovation, a strong third-party software and accessories ecosystem, marketing and distribution capability, service and support and corporate reputation.

The Company is focused on expanding its market opportunities related to personal computers and mobile communication and media devices. These markets are highly competitive and include many large, well-funded and experienced participants. The Company expects competition in these markets to intensify significantly as competitors attempt to imitate some of the features of the Company's products and applications within their own products or, alternatively, collaborate with each other to offer solutions that are more competitive than those they currently offer. These markets are characterized by aggressive pricing practices, frequent product introductions, evolving design approaches and technologies, rapid adoption of technological and product advancements by competitors and price sensitivity on the part of consumers and businesses.

The Company's digital content services have faced significant competition from other companies promoting their own digital music and content products and services, including those offering free peer-to-peer music and video services.

The Company's future financial condition and operating results depend on the Company's ability to continue to develop and offer new innovative products and services in each of the markets in which it competes. The Company believes it offers superior innovation and integration of the entire solution including the hardware (iOS devices, Mac, Apple Watch and Apple TV), software (iOS, OS X, watchOS and tvOS), online services and distribution of digital content and applications (Internet Services). Some of the Company's current and potential competitors have substantial resources and may be able to provide such products and services at little or no profit or even at a loss to compete with the Company's offerings.

Supply of Components

Although most components essential to the Company's business are generally available from multiple sources, a number of components are currently obtained from single or limited sources. In addition, the Company competes for various components with other participants in the markets for mobile communication and media devices and personal computers. Therefore, many components used by the Company, including those that are available from multiple sources, are at times subject to industry-wide shortage and significant pricing fluctuations that could materially adversely affect the Company's financial condition and operating results.

Table of Contents

The Company uses some custom components that are not commonly used by its competitors, and the Company often utilizes custom components available from only one source. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers' yields have matured or manufacturing capacity has increased. If the Company's supply of components were delayed or constrained, or if an outsourcing partner delayed shipments of completed products to the Company, the Company's financial condition and operating results could be materially adversely affected. The Company's business and financial performance could also be materially adversely affected depending on the time required to obtain sufficient quantities from the original source, or to identify and obtain sufficient quantities from an alternative source. Continued availability of these components at acceptable prices, or at all, may be affected if those suppliers concentrated on the production of common components instead of components customized to meet the Company's requirements.

The Company has entered into agreements for the supply of many components; however, there can be no guarantee that the Company will be able to extend or renew these agreements on similar terms, or at all. Therefore, the Company remains subject to significant risks of supply shortages and price increases that could materially adversely affect its financial condition and operating results.

While some Mac computers are manufactured in the U.S. and Ireland, substantially all of the Company's hardware products are currently manufactured by outsourcing partners that are located primarily in Asia. A significant concentration of this manufacturing is currently performed by a small number of outsourcing partners, often in single locations. Certain of these outsourcing partners are the sole-sourced suppliers of components and manufacturers for many of the Company's products. Although the Company works closely with its outsourcing partners on manufacturing schedules, the Company's operating results could be adversely affected if its outsourcing partners were unable to meet their production commitments. The Company's purchase commitments typically cover its requirements for periods up to 150 days.

Research and Development

Because the industries in which the Company competes are characterized by rapid technological advances, the Company's ability to compete successfully depends heavily upon its ability to ensure a continual and timely flow of competitive products, services and technologies to the marketplace. The Company continues to develop new technologies to enhance existing products and to expand the range of its product offerings through R&D, licensing of intellectual property and acquisition of third-party businesses and technology. Total R&D expense was $8.1 billion, $6.0 billion and $4.5 billion in 2015, 2014 and 2013, respectively.

Patents, Trademarks, Copyrights and Licenses

The Company currently holds rights to patents and copyrights relating to certain aspects of its hardware devices, accessories, software and services. The Company has registered or has applied for trademarks and service marks in the U.S. and a number of foreign countries. Although the Company believes the ownership of such patents, copyrights, trademarks and service marks is an important factor in its business and that its success does depend in part on such ownership, the Company relies primarily on the innovative skills, technical competence and marketing abilities of its personnel.

The Company regularly files patent applications to protect innovations arising from its research, development and design, and is currently pursuing thousands of patent applications around the world. Over time, the Company has accumulated a large portfolio of issued patents around the world. The Company holds copyrights relating to certain aspects of its products and services. No single patent or copyright is solely responsible for protecting the Company's products. The Company believes the duration of its patents is adequate relative to the expected lives of its products.

Many of the Company's products are designed to include intellectual property obtained from third parties. It may be necessary in the future to seek or renew licenses relating to various aspects of its products, processes and services. While the Company has generally been able to obtain such licenses on commercially reasonable terms in the past, there is no guarantee that such licenses could be obtained in the future on reasonable terms or at all. Because of technological changes in the industries in which the Company competes, current extensive patent coverage and the rapid rate of issuance of new patents, it is possible that certain components of the Company's products, processes and services may unknowingly infringe existing patents or intellectual property rights of others. From time to time, the Company has been notified that it may be infringing certain patents or other intellectual property rights of third parties.

Foreign and Domestic Operations and Geographic Data

During 2015, the Company's domestic and international net sales accounted for 35% and 65%, respectively, of total net sales. Information regarding financial data by geographic segment is set forth in Part II, Item 7 of this Form 10-K under the subheading "Segment Operating Performance," and in Part II, Item 8 of this Form 10-K in the Notes to Consolidated Financial Statements in Note 11, "Segment Information and Geographic Data."

Table of Contents

While some Mac computers are manufactured in the U.S. and Ireland, substantially all of the Company's hardware products are currently manufactured by outsourcing partners that are located primarily in Asia. The supply and manufacture of a number of components is performed by sole-sourced outsourcing partners in the U.S., Asia and Europe. Margins on sales of the Company's products in foreign countries and on sales of products that include components obtained from foreign suppliers, can be adversely affected by foreign currency exchange rate fluctuations and by international trade regulations, including tariffs and antidumping penalties. Information regarding concentration in the available sources of supply of materials and products is set forth in Part II, Item 8 of this Form 10-K in the Notes to Consolidated Financial Statements in Note 10, "Commitments and Contingencies."

Business Seasonality and Product Introductions

The Company has historically experienced higher net sales in its first quarter compared to other quarters in its fiscal year due in part to seasonal holiday demand. Additionally, new product introductions can significantly impact net sales, product costs and operating expenses. Product introductions can also impact the Company's net sales to its indirect distribution channels as these channels are filled with new product inventory following a product introduction, and often, channel inventory of a particular product declines as the next related major product launch approaches. Net sales can also be affected when consumers and distributors anticipate a product introduction. However, neither historical seasonal patterns nor historical patterns of product introductions should be considered reliable indicators of the Company's future pattern of product introductions, future net sales or financial performance.

Warranty

The Company offers a limited parts and labor warranty on most of its hardware products. The basic warranty period is typically one year from the date of purchase by the original end-user. The Company also offers a 90-day basic warranty for its service parts used to repair the Company's hardware products. In certain jurisdictions, local law requires that manufacturers guarantee their products for a period prescribed by statute, typically at least two years. In addition, where available, consumers may purchase APP or AC+, which extends service coverage on many of the Company's hardware products.

Backlog

In the Company's experience, the actual amount of product backlog at any particular time is not a meaningful indication of its future business prospects. In particular, backlog often increases immediately following new product introductions as customers anticipate shortages. Backlog is often reduced once customers believe they can obtain sufficient supply. Because of the foregoing, backlog should not be considered a reliable indicator of the Company's ability to achieve any particular level of revenue or financial performance.

Employees

As of September 26, 2015, the Company had approximately 110,000 full-time equivalent employees.

Available Information

The Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), are filed with the Securities and Exchange Commission (the "SEC"). The Company is subject to the informational requirements of the Exchange Act and files or furnishes reports, proxy statements and other information with the SEC. Such reports and other information filed by the Company with the SEC are available free of charge on the Company's website at investor.apple.com/sec.cfm when such reports are available on the SEC's website. The public may read and copy any materials filed by the Company with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Room 1580, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. The contents of these websites are not incorporated into this filing. Further, the Company's references to website URLs are intended to be inactive textual references only.

Table of Contents

Item 1A. Risk Factors

The following discussion of risk factors contains forward-looking statements. These risk factors may be important to understanding other statements in this Form 10-K. The following information should be read in conjunction with Part II, Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the consolidated financial statements and related notes in Part II, Item 8, “Financial Statements and Supplementary Data” of this Form 10-K.

The business, financial condition and operating results of the Company can be affected by a number of factors, whether currently known or unknown, including but not limited to those described below, any one or more of which could, directly or indirectly, cause the Company’s actual financial condition and operating results to vary materially from past, or from anticipated future, financial condition and operating results. Any of these factors, in whole or in part, could materially and adversely affect the Company’s business, financial condition, operating results and stock price.

Because of the following factors, as well as other factors affecting the Company’s financial condition and operating results, past financial performance should not be considered to be a reliable indicator of future performance, and investors should not use historical trends to anticipate results or trends in future periods.

Global and regional economic conditions could materially adversely affect the Company.

The Company’s operations and performance depend significantly on global and regional economic conditions. Uncertainty about global and regional economic conditions poses a risk as consumers and businesses may postpone spending in response to tighter credit, higher unemployment, financial market volatility, government austerity programs, negative financial news, declines in income or asset values and/or other factors. These worldwide and regional economic conditions could have a material adverse effect on demand for the Company’s products and services. Demand also could differ materially from the Company’s expectations as a result of currency fluctuations because the Company generally raises prices on goods and services sold outside the U.S. to correspond with the effect of a strengthening of the U.S. dollar. Other factors that could influence worldwide or regional demand include changes in fuel and other energy costs, conditions in the real estate and mortgage markets, unemployment, labor and healthcare costs, access to credit, consumer confidence and other macroeconomic factors affecting consumer spending behavior. These and other economic factors could materially adversely affect demand for the Company’s products and services.

In the event of financial turmoil affecting the banking system and financial markets, additional consolidation of the financial services industry, or significant financial service institution failures, there could be tightening in the credit markets, low liquidity and extreme volatility in fixed income, credit, currency and equity markets. This could have a number of effects on the Company’s business, including the insolvency or financial instability of outsourcing partners or suppliers or their inability to obtain credit to finance development and/or manufacture products resulting in product delays; inability of customers, including channel partners, to obtain credit to finance purchases of the Company’s products; failure of derivative counterparties and other financial institutions; and restrictions on the Company’s ability to issue new debt. Other income and expense also could vary materially from expectations depending on gains or losses realized on the sale or exchange of financial instruments; impairment charges resulting from revaluations of debt and equity securities and other investments; changes in interest rates; increases or decreases in cash balances; volatility in foreign exchange rates; and changes in fair value of derivative instruments. Increased volatility in the financial markets and overall economic uncertainty would increase the risk of the actual amounts realized in the future on the Company’s financial instruments differing significantly from the fair values currently assigned to them.

Global markets for the Company’s products and services are highly competitive and subject to rapid technological change, and the Company may be unable to compete effectively in these markets.

The Company’s products and services compete in highly competitive global markets characterized by aggressive price cutting and resulting downward pressure on gross margins, frequent introduction of new products, short product life cycles, evolving industry standards, continual improvement in product price/performance characteristics, rapid adoption of technological and product advancements by competitors and price sensitivity on the part of consumers.

The Company’s ability to compete successfully depends heavily on its ability to ensure a continuing and timely introduction of innovative new products, services and technologies to the marketplace. The Company believes it is unique in that it designs and develops nearly the entire solution for its products, including the hardware, operating system, numerous software applications and related services. As a result, the Company must make significant investments in R&D. The Company currently holds a significant number of patents and copyrights and has registered and/or has applied to register numerous patents, trademarks and service marks. In contrast, many of the Company’s competitors seek to compete primarily through aggressive pricing and very low cost structures, and emulating the Company’s products and infringing on its intellectual property. If the Company is unable to continue to develop and sell innovative new products with attractive margins or if competitors infringe on the Company’s intellectual property, the Company’s ability to maintain a competitive advantage could be adversely affected.

Table of Contents

The Company markets certain mobile communication and media devices based on the iOS mobile operating system and also markets related third-party digital content and applications. The Company faces substantial competition in these markets from companies that have significant technical, marketing, distribution and other resources, as well as established hardware, software and digital content supplier relationships; and the Company has a minority market share in the global smartphone market. Additionally, the Company faces significant price competition as competitors reduce their selling prices and attempt to imitate the Company's product features and applications within their own products or, alternatively, collaborate with each other to offer solutions that are more competitive than those they currently offer. The Company competes with business models that include content provided to users for free. The Company also competes with illegitimate ways to obtain third-party digital content and applications. Some of the Company's competitors have greater experience, product breadth and distribution channels than the Company. Because some current and potential competitors have substantial resources and/or experience and a lower cost structure, they may be able to provide products and services at little or no profit or even at a loss. The Company also expects competition to intensify as competitors attempt to imitate the Company's approach to providing components seamlessly within their individual offerings or work collaboratively to offer integrated solutions. The Company's financial condition and operating results depend substantially on the Company's ability to continually improve iOS and iOS devices in order to maintain their functional and design advantages.

The Company is the only authorized maker of hardware using OS X, which has a minority market share in the personal computer market. This market has been contracting and is dominated by computer makers using competing operating systems, most notably Windows. In the market for personal computers and accessories, the Company faces a significant number of competitors, many of which have broader product lines, lower priced products and a larger installed customer base. Historically, consolidation in this market has resulted in larger competitors. Price competition has been particularly intense as competitors selling Windows-based personal computers have aggressively cut prices and lowered product margins. An increasing number of internet-enabled devices that include software applications and are smaller and simpler than traditional personal computers compete for market share with the Company's existing products. The Company's financial condition and operating results also depend on its ability to continually improve the Mac platform to maintain its functional and design advantages.

There can be no assurance the Company will be able to continue to provide products and services that compete effectively.

To remain competitive and stimulate customer demand, the Company must successfully manage frequent product introductions and transitions.

Due to the highly volatile and competitive nature of the industries in which the Company competes, the Company must continually introduce new products, services and technologies, enhance existing products and services, effectively stimulate customer demand for new and upgraded products and successfully manage the transition to these new and upgraded products. The success of new product introductions depends on a number of factors including, but not limited to, timely and successful product development, market acceptance, the Company's ability to manage the risks associated with new product production ramp-up issues, the availability of application software for new products, the effective management of purchase commitments and inventory levels in line with anticipated product demand, the availability of products in appropriate quantities and at expected costs to meet anticipated demand and the risk that new products may have quality or other defects or deficiencies in the early stages of introduction. Accordingly, the Company cannot determine in advance the ultimate effect of new product introductions and transitions.

The Company depends on the performance of distributors, carriers and other resellers.

The Company distributes its products through cellular network carriers, wholesalers, national and regional retailers and value-added resellers, many of whom distribute products from competing manufacturers. The Company also sells its products and third-party products in most of its major markets directly to education, enterprise and government customers and consumers and small and mid-sized businesses through its online and retail stores.

Carriers providing cellular network service for iPhone typically subsidize users' purchases of the device. There is no assurance that such subsidies will be continued at all or in the same amounts upon renewal of the Company's agreements with these carriers or in agreements the Company enters into with new carriers.

Table of Contents

Many resellers have narrow operating margins and have been adversely affected in the past by weak economic conditions. Some resellers have perceived the expansion of the Company's direct sales as conflicting with their business interests as distributors and resellers of the Company's products. Such a perception could discourage resellers from investing resources in the distribution and sale of the Company's products or lead them to limit or cease distribution of those products. The Company has invested and will continue to invest in programs to enhance reseller sales, including staffing selected resellers' stores with Company employees and contractors, and improving product placement displays. These programs could require a substantial investment while providing no assurance of return or incremental revenue. The financial condition of these resellers could weaken, these resellers could stop distributing the Company's products, or uncertainty regarding demand for some or all of the Company's products could cause resellers to reduce their ordering and marketing of the Company's products.

The Company faces substantial inventory and other asset risk in addition to purchase commitment cancellation risk.

The Company records a write-down for product and component inventories that have become obsolete or exceed anticipated demand or net realizable value and accrues necessary cancellation fee reserves for orders of excess products and components. The Company also reviews its long-lived assets, including capital assets held at its suppliers' facilities and inventory prepayments, for impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the Company determines that impairment has occurred, it records a write-down equal to the amount by which the carrying value of the assets exceeds its fair value. Although the Company believes its provisions related to inventory, capital assets, inventory prepayments and other assets and purchase commitments are currently adequate, no assurance can be given that the Company will not incur additional related charges given the rapid and unpredictable pace of product obsolescence in the industries in which the Company competes.

The Company must order components for its products and build inventory in advance of product announcements and shipments. Consistent with industry practice, components are normally acquired through a combination of purchase orders, supplier contracts and open orders, in each case based on projected demand. Where appropriate, the purchases are applied to inventory component prepayments that are outstanding with the respective supplier. Purchase commitments typically cover forecasted component and manufacturing requirements for periods up to 150 days. Because the Company's markets are volatile, competitive and subject to rapid technology and price changes, there is a risk the Company will forecast incorrectly and order or produce excess or insufficient amounts of components or products, or not fully utilize firm purchase commitments.

Future operating results depend upon the Company's ability to obtain components in sufficient quantities.

Because the Company currently obtains components from single or limited sources, the Company is subject to significant supply and pricing risks. Many components, including those that are available from multiple sources, are at times subject to industry-wide shortages and significant commodity pricing fluctuations. While the Company has entered into agreements for the supply of many components, there can be no assurance that the Company will be able to extend or renew these agreements on similar terms, or at all. A number of suppliers of components may suffer from poor financial conditions, which can lead to business failure for the supplier or consolidation within a particular industry, further limiting the Company's ability to obtain sufficient quantities of components. The effects of global or regional economic conditions on the Company's suppliers, described in " *Global and regional economic conditions could materially adversely affect the Company"* above, also could affect the Company's ability to obtain components . Therefore, the Company remains subject to significant risks of supply shortages and price increases.

The Company and other participants in the markets for mobile communication and media devices and personal computers also compete for various components with other industries that have experienced increased demand for their products. The Company uses some custom components that are not common to the rest of these industries. The Company's new products often utilize custom components available from only one source. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers' yields have matured or manufacturing capacity has increased. Continued availability of these components at acceptable prices, or at all, may be affected for any number of reasons, including if those suppliers decide to concentrate on the production of common components instead of components customized to meet the Company's requirements. The supply of components for a new or existing product could be delayed or constrained, or a key manufacturing vendor could delay shipments of completed products to the Company.

Table of Contents

The Company depends on component and product manufacturing and logistical services provided by outsourcing partners, many of which are located outside of the U.S.

Substantially all of the Company's manufacturing is performed in whole or in part by a few outsourcing partners located primarily in Asia. The Company has also outsourced much of its transportation and logistics management. While these arrangements may lower operating costs, they also reduce the Company's direct control over production and distribution. It is uncertain what effect such diminished control will have on the quality or quantity of products or services, or the Company's flexibility to respond to changing conditions. Although arrangements with these partners may contain provisions for warranty expense reimbursement, the Company may remain responsible to the consumer for warranty service in the event of product defects and could experience an unanticipated product defect or warranty liability. While the Company relies on its partners to adhere to its supplier code of conduct, material violations of the supplier code of conduct could occur.

The Company relies on sole-sourced outsourcing partners in the U.S., Asia and Europe to supply and manufacture many critical components, and on outsourcing partners primarily located in Asia, for final assembly of substantially all of the Company's hardware products. Any failure of these partners to perform may have a negative impact on the Company's cost or supply of components or finished goods. In addition, manufacturing or logistics in these locations or transit to final destinations may be disrupted for a variety of reasons including, but not limited to, natural and man-made disasters, information technology system failures, commercial disputes, military actions or economic, business, labor, environmental, public health, or political issues.

The Company has invested in manufacturing process equipment, much of which is held at certain of its outsourcing partners, and has made prepayments to certain of its suppliers associated with long-term supply agreements. While these arrangements help ensure the supply of components and finished goods, if these outsourcing partners or suppliers experience severe financial problems or other disruptions in their business, such continued supply could be reduced or terminated and the net realizable value of these assets could be negatively impacted.

The Company's products and services may experience quality problems from time to time that can result in decreased sales and operating margin and harm to the Company's reputation.

The Company sells complex hardware and software products and services that can contain design and manufacturing defects. Sophisticated operating system software and applications, such as those sold by the Company, often contain "bugs" that can unexpectedly interfere with the software's intended operation. The Company's online services may from time to time experience outages, service slowdowns, or errors. Defects may also occur in components and products the Company purchases from third parties. There can be no assurance the Company will be able to detect and fix all defects in the hardware, software and services it sells. Failure to do so could result in lost revenue, significant warranty and other expenses and harm to the Company's reputation.

The Company relies on access to third-party digital content, which may not be available to the Company on commercially reasonable terms or at all.

The Company contracts with numerous third parties to offer their digital content. This includes the right to sell currently available music, movies, TV shows and books. The licensing or other distribution arrangements with these third parties are for relatively short terms and do not guarantee the continuation or renewal of these arrangements on reasonable terms, if at all. Some third-party content providers and distributors currently or in the future may offer competing products and services, and could take action to make it more difficult or impossible for the Company to license or otherwise distribute their content in the future. Other content owners, providers or distributors may seek to limit the Company's access to, or increase the cost of, such content. The Company may be unable to continue to offer a wide variety of content at reasonable prices with acceptable usage rules, or continue to expand its geographic reach. Failure to obtain the right to make available third-party digital content, or to make available such content on commercially reasonable terms, could have a material adverse impact on the Company's financial condition and operating results.

Some third-party digital content providers require the Company to provide digital rights management and other security solutions. If requirements change, the Company may have to develop or license new technology to provide these solutions. There is no assurance the Company will be able to develop or license such solutions at a reasonable cost and in a timely manner. In addition, certain countries have passed or may propose and adopt legislation that would force the Company to license its digital rights management, which could lessen the protection of content and subject it to piracy and also could negatively affect arrangements with the Company's content providers.

Table of Contents

The Company's future performance depends in part on support from third-party software developers.

The Company believes decisions by customers to purchase its hardware products depend in part on the availability of third-party software applications and services. There is no assurance that third-party developers will continue to develop and maintain software applications and services for the Company's products. If third-party software applications and services cease to be developed and maintained for the Company's products, customers may choose not to buy the Company's products.

With respect to its Mac products, the Company believes the availability of third-party software applications and services depends in part on the developers' perception and analysis of the relative benefits of developing, maintaining and upgrading such software for the Company's products compared to Windows-based products. This analysis may be based on factors such as the market position of the Company and its products, the anticipated revenue that may be generated, expected future growth of Mac sales and the costs of developing such applications and services. If the Company's minority share of the global personal computer market causes developers to question the Mac's prospects, developers could be less inclined to develop or upgrade software for the Company's Mac products and more inclined to devote their resources to developing and upgrading software for the larger Windows market.

With respect to iOS devices, the Company relies on the continued availability and development of compelling and innovative software applications, which are distributed through a single distribution channel, the App Store. iOS devices are subject to rapid technological change, and, if third-party developers are unable to or choose not to keep up with this pace of change, third-party applications might not successfully operate and may result in dissatisfied customers. As with applications for the Company's Mac products, the availability and development of these applications also depend on developers' perceptions and analysis of the relative benefits of developing, maintaining or upgrading software for the Company's iOS devices rather than its competitors' platforms, such as Android. If developers focus their efforts on these competing platforms, the availability and quality of applications for the Company's iOS devices may suffer.

The Company relies on access to third-party intellectual property, which may not be available to the Company on commercially reasonable terms or at all.

Many of the Company's products include third-party intellectual property, which requires licenses from those third parties. Based on past experience and industry practice, the Company believes such licenses generally can be obtained on reasonable terms. There is, however, no assurance that the necessary licenses can be obtained on acceptable terms or at all. Failure to obtain the right to use third-party intellectual property, or to use such intellectual property on commercially reasonable terms, could preclude the Company from selling certain products or otherwise have a material adverse impact on the Company's financial condition and operating results.

The Company could be impacted by unfavorable results of legal proceedings, such as being found to have infringed on intellectual property rights.

The Company is subject to various legal proceedings and claims that have not yet been fully resolved and that have arisen in the ordinary course of business, and additional claims may arise in the future.

For example, technology companies, including many of the Company's competitors, frequently enter into litigation based on allegations of patent infringement or other violations of intellectual property rights. In addition, patent holding companies seek to monetize patents they have purchased or otherwise obtained. As the Company has grown, the intellectual property rights claims against it have increased and may continue to increase. In particular, the Company's cellular enabled products compete with products from mobile communication and media device companies that hold significant patent portfolios, and the number of patent claims against the Company has significantly increased. The Company is vigorously defending infringement actions in courts in a number of U.S. jurisdictions and before the U.S. International Trade Commission, as well as internationally in various countries. The plaintiffs in these actions frequently seek injunctions and substantial damages.

Regardless of the scope or validity of such patents or other intellectual property rights, or the merits of any claims by potential or actual litigants, the Company may have to engage in protracted litigation. If the Company is found to infringe one or more patents or other intellectual property rights, regardless of whether it can develop non-infringing technology, it may be required to pay substantial damages or royalties to a third-party, or it may be subject to a temporary or permanent injunction prohibiting the Company from marketing or selling certain products.

In certain cases, the Company may consider the desirability of entering into licensing agreements, although no assurance can be given that such licenses can be obtained on acceptable terms or that litigation will not occur. These licenses may also significantly increase the Company's operating expenses.

Table of Contents

Regardless of the merit of particular claims, litigation may be expensive, time-consuming, disruptive to the Company's operations and distracting to management. In recognition of these considerations, the Company may enter into arrangements to settle litigation.

In management's opinion, there is not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies, including matters related to infringement of intellectual property rights. However, the outcome of litigation is inherently uncertain.

Although management considers the likelihood of such an outcome to be remote, if one or more legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected. Further, such an outcome could result in significant compensatory, punitive or trebled monetary damages, disgorgement of revenue or profits, remedial corporate measures or injunctive relief against the Company that could materially adversely affect its financial condition and operating results.

The Company is subject to laws and regulations worldwide, changes to which could increase the Company's costs and individually or in the aggregate adversely affect the Company's business.

The Company is subject to laws and regulations affecting its domestic and international operations in a number of areas. These U.S. and foreign laws and regulations affect the Company's activities including, but not limited to, in areas of labor, advertising, digital content, consumer protection, real estate, billing, e-commerce, promotions, quality of services, telecommunications, mobile communications and media, television, intellectual property ownership and infringement, tax, import and export requirements, anti-corruption, foreign exchange controls and cash repatriation restrictions, data privacy requirements, anti-competition, environmental, health and safety.

By way of example, laws and regulations related to mobile communications and media devices in the many jurisdictions in which the Company operates are extensive and subject to change. Such changes could include, among others, restrictions on the production, manufacture, distribution and use of devices, locking devices to a carrier's network, or mandating the use of devices on more than one carrier's network. These devices are also subject to certification and regulation by governmental and standardization bodies, as well as by cellular network carriers for use on their networks. These certification processes are extensive and time consuming, and could result in additional testing requirements, product modifications, or delays in product shipment dates, or could preclude the Company from selling certain products.

Compliance with these laws, regulations and similar requirements may be onerous and expensive, and they may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance and doing business. Any such costs, which may rise in the future as a result of changes in these laws and regulations or in their interpretation, could individually or in the aggregate make the Company's products and services less attractive to the Company's customers, delay the introduction of new products in one or more regions, or cause the Company to change or limit its business practices. The Company has implemented policies and procedures designed to ensure compliance with applicable laws and regulations, but there can be no assurance that the Company's employees, contractors, or agents will not violate such laws and regulations or the Company's policies and procedures.

The Company's business is subject to the risks of international operations.

The Company derives a significant portion of its revenue and earnings from its international operations. Compliance with applicable U.S. and foreign laws and regulations, such as import and export requirements, anti-corruption laws, tax laws, foreign exchange controls and cash repatriation restrictions, data privacy requirements, environmental laws, labor laws and anti-competition regulations, increases the costs of doing business in foreign jurisdictions. Although the Company has implemented policies and procedures to comply with these laws and regulations, a violation by the Company's employees, contractors, or agents could nevertheless occur. Violations of these laws and regulations could materially adversely affect the Company's brand, international growth efforts and business.

The Company also could be significantly affected by other risks associated with international activities including, but not limited to, economic and labor conditions, increased duties, taxes and other costs and political instability. Margins on sales of the Company's products in foreign countries, and on sales of products that include components obtained from foreign suppliers, could be materially adversely affected by international trade regulations, including duties, tariffs and antidumping penalties. The Company is also exposed to credit and collectability risk on its trade receivables with customers in certain international markets. There can be no assurance the Company can effectively limit its credit risk and avoid losses.

Table of Contents

The Company's retail stores have required and will continue to require a substantial investment and commitment of resources and are subject to numerous risks and uncertainties.

The Company's retail stores have required substantial investment in equipment and leasehold improvements, information systems, inventory and personnel. The Company also has entered into substantial operating lease commitments for retail space. Certain stores have been designed and built to serve as high-profile venues to promote brand awareness and serve as vehicles for corporate sales and marketing activities. Because of their unique design elements, locations and size, these stores require substantially more investment than the Company's more typical retail stores. Due to the high cost structure associated with the Company's retail stores, a decline in sales or the closure or poor performance of individual or multiple stores could result in significant lease termination costs, write-offs of equipment and leasehold improvements and severance costs.

Many factors unique to retail operations, some of which are beyond the Company's control, pose risks and uncertainties. These risks and uncertainties include, but are not limited to, macro-economic factors that could have an adverse effect on general retail activity, as well as the Company's inability to manage costs associated with store construction and operation, the Company's failure to manage relationships with its existing retail partners, more challenging environments in managing retail operations outside the U.S., costs associated with unanticipated fluctuations in the value of retail inventory, and the Company's inability to obtain and renew leases in quality retail locations at a reasonable cost.

Investment in new business strategies and acquisitions could disrupt the Company's ongoing business and present risks not originally contemplated.

The Company has invested, and in the future may invest, in new business strategies or acquisitions. Such endeavors may involve significant risks and uncertainties, including distraction of management from current operations, greater than expected liabilities and expenses, inadequate return of capital and unidentified issues not discovered in the Company's due diligence. These new ventures are inherently risky and may not be successful.

The Company's business and reputation may be impacted by information technology system failures or network disruptions.

The Company may be subject to information technology system failures and network disruptions. These may be caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, or other events or disruptions. System redundancy may be ineffective or inadequate, and the Company's disaster recovery planning may not be sufficient for all eventualities. Such failures or disruptions could, among other things, prevent access to the Company's online stores and services, preclude retail store transactions, compromise Company or customer data, and result in delayed or cancelled orders. System failures and disruptions could also impede the manufacturing and shipping of products, delivery of online services, transactions processing and financial reporting.

There may be breaches of the Company's information technology systems that materially damage business partner and customer relationships, curtail or otherwise adversely impact access to online stores and services, or subject the Company to significant reputational, financial, legal and operational consequences.

The Company's business requires it to use and store customer, employee and business partner personally identifiable information ("PII"). This may include, among other information, names, addresses, phone numbers, email addresses, contact preferences, tax identification numbers and payment account information. Although malicious attacks to gain access to PII affect many companies across various industries, the Company is at a relatively greater risk of being targeted because of its high profile and the amount of PII it manages.

The Company requires user names and passwords in order to access its information technology systems. The Company also uses encryption and authentication technologies designed to secure the transmission and storage of data and prevent access to Company data or accounts. As with all companies, these security measures are subject to third-party security breaches, employee error, malfeasance, faulty password management, or other irregularities. For example, third parties may attempt to fraudulently induce employees or customers into disclosing user names, passwords or other sensitive information, which may in turn be used to access the Company's information technology systems. To help protect customers and the Company, the Company monitors accounts and systems for unusual activity and may freeze accounts under suspicious circumstances, which may result in the delay or loss of customer orders.

Table of Contents

The Company devotes significant resources to network security, data encryption and other security measures to protect its systems and data, but these security measures cannot provide absolute security. To the extent the Company was to experience a breach of its systems and was unable to protect sensitive data, such a breach could materially damage business partner and customer relationships, and curtail or otherwise adversely impact access to online stores and services. Moreover, if a computer security breach affects the Company's systems or results in the unauthorized release of PII, the Company's reputation and brand could be materially damaged, use of the Company's products and services could decrease, and the Company could be exposed to a risk of loss or litigation and possible liability. While the Company maintains insurance coverage that, subject to policy terms and conditions and subject to a significant self-insured retention, is designed to address certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses or all types of claims that may arise in the continually evolving area of cyber risk.

The Company's business is subject to a variety of U.S. and international laws, rules, policies and other obligations regarding data protection.

The Company is subject to federal, state and international laws relating to the collection, use, retention, security and transfer of PII. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between the Company and its subsidiaries, and among the Company, its subsidiaries and other parties with which the Company has commercial relations. Several jurisdictions have passed laws in this area, and other jurisdictions are considering imposing additional restrictions. These laws continue to develop and may be inconsistent from jurisdiction to jurisdiction. Complying with emerging and changing international requirements may cause the Company to incur substantial costs or require the Company to change its business practices. Noncompliance could result in penalties or significant legal liability.

The Company's privacy policy, which includes related practices concerning the use and disclosure of data, is posted on its website. Any failure by the Company, its suppliers or other parties with whom the Company does business to comply with its posted privacy policy or with other federal, state or international privacy-related or data protection laws and regulations could result in proceedings against the Company by governmental entities or others.

The Company is also subject to payment card association rules and obligations under its contracts with payment card processors. Under these rules and obligations, if information is compromised, the Company could be liable to payment card issuers for associated expenses and penalties. In addition, if the Company fails to follow payment card industry security standards, even if no customer information is compromised, the Company could incur significant fines or experience a significant increase in payment card transaction costs.

The Company's success depends largely on the continued service and availability of key personnel.

Much of the Company's future success depends on the continued availability and service of key personnel, including its Chief Executive Officer, executive team and other highly skilled employees. Experienced personnel in the technology industry are in high demand and competition for their talents is intense, especially in Silicon Valley, where most of the Company's key personnel are located.

The Company's business may be impacted by political events, war, terrorism, public health issues, natural disasters and other business interruptions.

War, terrorism, geopolitical uncertainties, public health issues and other business interruptions have caused and could cause damage or disruption to international commerce and the global economy, and thus could have a material adverse effect on the Company, its suppliers, logistics providers, manufacturing vendors and customers, including channel partners. The Company's business operations are subject to interruption by, among others, natural disasters, whether as a result of climate change or otherwise, fire, power shortages, nuclear power plant accidents, terrorist attacks and other hostile acts, labor disputes, public health issues and other events beyond its control. Such events could decrease demand for the Company's products, make it difficult or impossible for the Company to make and deliver products to its customers, including channel partners, or to receive components from its suppliers, and create delays and inefficiencies in the Company's supply chain. Should major public health issues, including pandemics, arise, the Company could be adversely affected by more stringent employee travel restrictions, additional limitations in freight services, governmental actions limiting the movement of products between regions, delays in production ramps of new products and disruptions in the operations of the Company's manufacturing vendors and component suppliers. The majority of the Company's R&D activities, its corporate headquarters, information technology systems and other critical business operations, including certain component suppliers and manufacturing vendors, are in locations that could be affected by natural disasters. In the event of a natural disaster, the Company could incur significant losses, require substantial recovery time and experience significant expenditures in order to resume operations.

Table of Contents

The Company expects its quarterly revenue and operating results to fluctuate.

The Company's profit margins vary across its products and distribution channels. The Company's software, accessories, and service and support contracts generally have higher gross margins than certain of the Company's other products. Gross margins on the Company's hardware products vary across product lines and can change over time as a result of product transitions, pricing and configuration changes, and component, warranty, and other cost fluctuations. The Company's direct sales generally have higher associated gross margins than its indirect sales through its channel partners. In addition, the Company's gross margin and operating margin percentages, as well as overall profitability, may be materially adversely impacted as a result of a shift in product, geographic or channel mix, component cost increases, the strengthening U.S. dollar, price competition, or the introduction of new products, including those that have higher cost structures with flat or reduced pricing.

The Company has typically experienced higher net sales in its first quarter compared to other quarters due in part to seasonal holiday demand. Additionally, new product introductions can significantly impact net sales, product costs and operating expenses. Further, the Company generates a majority of its net sales from a single product and a decline in demand for that product could significantly impact quarterly net sales. The Company could also be subject to unexpected developments late in a quarter, such as lower-than-anticipated demand for the Company's products, issues with new product introductions, an internal systems failure, or failure of one of the Company's logistics, components supply, or manufacturing partners.

The Company's stock price is subject to volatility.

The Company's stock price has experienced substantial price volatility in the past and may continue to do so in the future. Additionally, the Company, the technology industry and the stock market as a whole have experienced extreme stock price and volume fluctuations that have affected stock prices in ways that may have been unrelated to these companies' operating performance. Price volatility over a given period may cause the average price at which the Company repurchases its own stock to exceed the stock's price at a given point in time. The Company believes its stock price should reflect expectations of future growth and profitability. The Company also believes its stock price should reflect expectations that its cash dividend will continue at current levels or grow and that its current share repurchase program will be fully consummated. Future dividends are subject to declaration by the Company's Board of Directors, and the Company's share repurchase program does not obligate it to acquire any specific number of shares. If the Company fails to meet expectations related to future growth, profitability, dividends, share repurchases or other market expectations, its stock price may decline significantly, which could have a material adverse impact on investor confidence and employee retention.

The Company's financial performance is subject to risks associated with changes in the value of the U.S. dollar versus local currencies.

The Company's primary exposure to movements in foreign currency exchange rates relates to non-U.S. dollar-denominated sales and operating expenses worldwide. Weakening of foreign currencies relative to the U.S. dollar adversely affects the U.S. dollar value of the Company's foreign currency-denominated sales and earnings, and generally leads the Company to raise international pricing, potentially reducing demand for the Company's products. Margins on sales of the Company's products in foreign countries and on sales of products that include components obtained from foreign suppliers, could be materially adversely affected by foreign currency exchange rate fluctuations. In some circumstances, for competitive or other reasons, the Company may decide not to raise local prices to fully offset the dollar's strengthening, or at all, which would adversely affect the U.S. dollar value of the Company's foreign currency-denominated sales and earnings. Conversely, a strengthening of foreign currencies relative to the U.S. dollar, while generally beneficial to the Company's foreign currency-denominated sales and earnings, could cause the Company to reduce international pricing and incur losses on its foreign currency derivative instruments, thereby limiting the benefit. Additionally, strengthening of foreign currencies may also increase the Company's cost of product components denominated in those currencies, thus adversely affecting gross margins.

The Company uses derivative instruments, such as foreign currency forward and option contracts, to hedge certain exposures to fluctuations in foreign currency exchange rates. The use of such hedging activities may not offset any, or more than a portion, of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place.

The Company is exposed to credit risk and fluctuations in the market values of its investment portfolio.

Given the global nature of its business, the Company has both domestic and international investments. Credit ratings and pricing of the Company's investments can be negatively affected by liquidity, credit deterioration, financial results, economic risk, political risk, sovereign risk or other factors. As a result, the value and liquidity of the Company's cash, cash equivalents and marketable securities may fluctuate substantially. Therefore, although the Company has not realized any significant losses on its cash, cash equivalents and marketable securities, future fluctuations in their value could result in a significant realized loss.

Table of Contents

The Company is exposed to credit risk on its trade accounts receivable, vendor non-trade receivables and prepayments related to long-term supply agreements, and this risk is heightened during periods when economic conditions worsen.

The Company distributes its products through third-party cellular network carriers, wholesalers, retailers and value-added resellers. The Company also sells its products directly to small and mid-sized businesses and education, enterprise and government customers. A substantial majority of the Company's outstanding trade receivables are not covered by collateral, third-party financing arrangements or credit insurance. The Company's exposure to credit and collectability risk on its trade receivables is higher in certain international markets and its ability to mitigate such risks may be limited. The Company also has unsecured vendor non-trade receivables resulting from purchases of components by outsourcing partners and other vendors that manufacture sub-assemblies or assemble final products for the Company. In addition, the Company has made prepayments associated with long-term supply agreements to secure supply of inventory components. As of September 26, 2015, a significant portion of the Company's trade receivables was concentrated within cellular network carriers, and its vendor non-trade receivables and prepayments related to long-term supply agreements were concentrated among a few individual vendors located primarily in Asia. While the Company has procedures to monitor and limit exposure to credit risk on its trade and vendor non-trade receivables, as well as long-term prepayments, there can be no assurance such procedures will effectively limit its credit risk and avoid losses.

The Company could be subject to changes in its tax rates, the adoption of new U.S. or international tax legislation or exposure to additional tax liabilities.

The Company is subject to taxes in the U.S. and numerous foreign jurisdictions, including Ireland, where a number of the Company's subsidiaries are organized. Due to economic and political conditions, tax rates in various jurisdictions may be subject to significant change. The Company's effective tax rates could be affected by changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, or changes in tax laws or their interpretation, including in the U.S. and Ireland. For example, in June 2014, the European Commission opened a formal investigation of Ireland to examine whether decisions by the tax authorities with regard to the corporate income tax to be paid by two of the Company's Irish subsidiaries comply with European Union rules on state aid. If the European Commission were to conclude against Ireland, it could require Ireland to recover from the Company past taxes covering a period of up to 10 years reflective of the disallowed state aid, and such amount could be material.

The Company is also subject to the examination of its tax returns and other tax matters by the Internal Revenue Service and other tax authorities and governmental bodies. The Company regularly assesses the likelihood of an adverse outcome resulting from these examinations to determine the adequacy of its provision for taxes. There can be no assurance as to the outcome of these examinations. If the Company's effective tax rates were to increase, particularly in the U.S. or Ireland, or if the ultimate determination of the Company's taxes owed is for an amount in excess of amounts previously accrued, the Company's financial condition, operating results and cash flows could be adversely affected.

Table of Contents

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company's headquarters are located in Cupertino, California. As of September 26, 2015, the Company owned or leased 25.6 million square feet of building space, primarily in the U.S. The Company also owned or leased building space in various locations, including throughout Europe, China, Singapore and Japan. Of the total owned or leased building space 18.5 million square feet was leased building space, which includes approximately 5.3 million square feet related to retail store space. Additionally, the Company owns a total of 1,757 acres of land in various locations.

As of September 26, 2015, the Company owned a manufacturing facility in Cork, Ireland that also housed a customer support call center; facilities in Elk Grove, California that included warehousing and distribution operations and a customer support call center; and a facility in Mesa, Arizona. The Company also owned land in Austin, Texas where it is expanding its existing office space and customer support call center. In addition, the Company owned facilities and land for R&D and corporate functions in San Jose, California and Cupertino, California, including land that is being developed for the Company's second corporate campus. The Company also owned data centers in Newark, California; Maiden, North Carolina; Prineville, Oregon; and Reno, Nevada. Outside the U.S., the Company owned additional facilities for various purposes.

The Company believes its existing facilities and equipment, which are used by all operating segments, are in good operating condition and are suitable for the conduct of its business. The Company has invested in internal capacity and strategic relationships with outside manufacturing vendors and continues to make investments in capital equipment as needed to meet anticipated demand for its products.

Item 3. Legal Proceedings

The Company is subject to the legal proceedings and claims discussed below as well as certain other legal proceedings and claims that have not been fully resolved and that have arisen in the ordinary course of business. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies for asserted legal and other claims. However, the outcome of legal proceedings and claims brought against the Company is subject to significant uncertainty. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected. See the risk factor "*The Company could be impacted by unfavorable results of legal proceedings, such as being found to have infringed on intellectual property rights*" in Part I, Item 1A of this Form 10-K under the heading "Risk Factors." The Company settled certain matters during the fourth quarter of 2015 that did not individually or in the aggregate have a material impact on the Company's financial condition or operating results.

Apple eBooks Antitrust Litigation (United States of America v. Apple Inc., et al.)

On April 11, 2012, the U.S. Department of Justice filed a civil antitrust action against the Company and five major book publishers in the U.S. District Court for the Southern District of New York, alleging an unreasonable restraint of interstate trade and commerce in violation of §1 of the Sherman Act and seeking, among other things, injunctive relief, the District Court's declaration that the Company's agency agreements with the publishers are null and void and/or the District Court's reformation of such agreements. On July 10, 2013, the District Court found, following a bench trial, that the Company conspired to restrain trade in violation of §1 of the Sherman Act and relevant state statutes to the extent those laws are congruent with §1 of the Sherman Act. The District Court entered a permanent injunction, which took effect on October 6, 2013 and will be in effect for five years unless the judgment is overturned on appeal. The Company has taken the necessary steps to comply with the terms of the District Court's order, including renegotiating agreements with the five major eBook publishers, updating its antitrust training program and completing a two-year monitorship with a court-appointed antitrust compliance monitor, whose appointment the District Court ended in October 2015. The Company appealed the District Court's decision. Pursuant to a settlement agreement reached in June 2014, any damages the Company may be obligated to pay will be determined by the outcome of the final adjudication following exhaustion of all appeals.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock is traded on the NASDAQ Stock Market LLC ("NASDAQ") under the symbol AAPL.

Price Range of Common Stock

The price range per share of common stock presented below represents the highest and lowest intraday sales prices for the Company's common stock on the NASDAQ during each quarter of the two most recent years.

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
2015 price range per share	$ 132.97 - $ 92.00	$ 134.54 - $ 123.10	$ 133.60 - $ 104.63	$ 119.75 - $ 95.18
2014 price range per share	$ 103.74 - $ 92.09	$ 95.05 - $ 73.05	$ 80.18 - $ 70.51	$ 82.16 - $ 67.77

Holders

As of October 9, 2015, there were 25,924 shareholders of record.

Dividends

The Company paid a total of $11.4 billion and $11.0 billion in dividends during 2015 and 2014, respectively, and expects to pay quarterly dividends of $0.52 per common share each quarter, subject to declaration by the Board of Directors. The Company also plans to increase its dividend on an annual basis, subject to declaration by the Board of Directors.

Table of Contents

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Share repurchase activity during the three months ended September 26, 2015 was as follows (in millions, except number of shares, which are reflected in thousands, and per share amounts):

Periods	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs (1)
June 28, 2015 to August 1, 2015:				
May 2015 ASR	9,973 (2)	(2)	9,973 (2)	
Open market and privately negotiated purchases	15,882	$ 124.66	15,882	
August 2, 2015 to August 29, 2015:				
Open market and privately negotiated purchases	68,526	$ 114.15	68,526	
August 30, 2015 to September 26, 2015:				
Open market and privately negotiated purchases	37,394	$ 112.94	37,394	
Total	131,775			$ 36,024

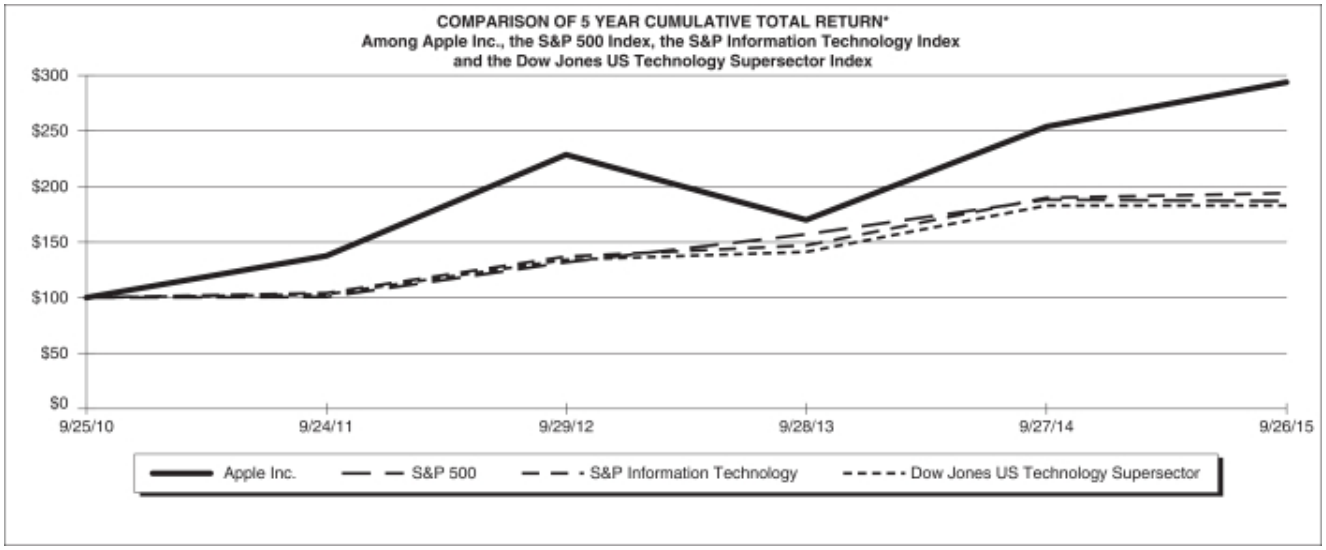
(1) In 2012, the Company's Board of Directors authorized a program to repurchase up to $10 billion of the Company's common stock beginning in 2013. The Company's Board of Directors increased the authorization to repurchase the Company's common stock to $60 billion in April 2013, to $90 billion in April 2014 and to $140 billion in April 2015. As of September 26, 2015, $104 billion of the $140 billion had been utilized. The remaining $36 billion in the table represents the amount available to repurchase shares under the authorized repurchase program as of September 26, 2015. The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under the program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Exchange Act.

(2) In May 2015, the Company entered into an accelerated share repurchase arrangement ("ASR") to purchase up to $6.0 billion of the Company's common stock. In July 2015, the purchase period for this ASR ended and an additional 10.0 million shares were delivered and retired. In total, 48.3 million net shares were delivered under this ASR at an average repurchase price of $124.24.

Table of Contents

Company Stock Performance

The following graph shows a comparison of cumulative total shareholder return, calculated on a dividend reinvested basis, for the Company, the S&P 500 Index, the S&P Information Technology Index and the Dow Jones U.S. Technology Supersector Index for the five years ended September 26, 2015. The graph assumes $100 was invested in each of the Company's common stock, the S&P 500 Index, the S&P Information Technology Index and the Dow Jones U.S. Technology Supersector Index as of the market close on September 24, 2010. Note that historic stock price performance is not necessarily indicative of future stock price performance.



* $100 invested on 9/25/10 in stock or index, including reinvestment of dividends. Data points are the last day of each fiscal year for the Company's common stock and September 30th for indexes.

Copyright© 2015 S&P, a division of McGraw Hill Financial. All rights reserved.
Copyright © 2015 Dow Jones & Co. All rights reserved.

	September 2010	September 2011	September 2012	September 2013	September 2014	September 2015
Apple Inc.	$ 100	$ 138	$ 229	$ 170	$ 254	$ 294
S&P 500 Index	$ 100	$ 101	$ 132	$ 157	$ 188	$ 187
S&P Information Technology Index	$ 100	$ 104	$ 137	$ 147	$ 190	$ 194
Dow Jones U.S. Technology Supersector Index	$ 100	$ 103	$ 134	$ 141	$ 183	$ 183

Table of Contents

Item 6. Selected Financial Data

The information set forth below for the five years ended September 26, 2015, is not necessarily indicative of results of future operations, and should be read in conjunction with Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes thereto included in Part II, Item 8 of this Form 10-K to fully understand factors that may affect the comparability of the information presented below (in millions, except number of shares, which are reflected in thousands, and per share amounts).

	2015	2014	2013	2012	2011
Net sales	$ 233,715	$ 182,795	$ 170,910	$ 156,508	$ 108,249
Net income	$ 53,394	$ 39,510	$ 37,037	$ 41,733	$ 25,922
Earnings per share:					
Basic	$ 9.28	$ 6.49	$ 5.72	$ 6.38	$ 4.01
Diluted	$ 9.22	$ 6.45	$ 5.68	$ 6.31	$ 3.95
Cash dividends declared per share	$ 1.98	$ 1.82	$ 1.64	$ 0.38	$ 0
Shares used in computing earnings per share:					
Basic	5,753,421	6,085,572	6,477,320	6,543,726	6,469,806
Diluted	5,793,069	6,122,663	6,521,634	6,617,483	6,556,514
Total cash, cash equivalents and marketable securities	$ 205,666	$ 155,239	$ 146,761	$ 121,251	$ 81,570
Total assets	$ 290,479	$ 231,839	$ 207,000	$ 176,064	$ 116,371
Commercial paper	$ 8,499	$ 6,308	$ 0	$ 0	$ 0
Total term debt (2)	$ 55,963	$ 28,987	$ 16,960	$ 0	$ 0
Other long-term obligations (1)	$ 33,427	$ 24,826	$ 20,208	$ 16,664	$ 10,100
Total liabilities	$ 171,124	$ 120,292	$ 83,451	$ 57,854	$ 39,756
Total shareholders' equity	$ 119,355	$ 111,547	$ 123,549	$ 118,210	$ 76,615

(1) Other long-term obligations exclude non-current deferred revenue.

(2) Includes current and long-term portion of term debt.

Table of Contents

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

This section and other parts of this Annual Report on Form 10-K ("Form 10-K") contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as "future," "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "will," "would," "could," "can," "may," and similar terms. Forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A of this Form 10-K under the heading "Risk Factors," which are incorporated herein by reference. The following discussion should be read in conjunction with the consolidated financial statements and notes thereto included in Part II, Item 8 of this Form 10-K. All information presented herein is based on the Company's fiscal calendar. Unless otherwise stated, references to particular years, quarters, months or periods refer to the Company's fiscal years ended in September and the associated quarters, months and periods of those fiscal years. Each of the terms the "Company" and "Apple" as used herein refers collectively to Apple Inc. and its wholly-owned subsidiaries, unless otherwise stated. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Overview and Highlights

The Company designs, manufactures and markets mobile communication and media devices, personal computers and portable digital music players, and sells a variety of related software, services, accessories, networking solutions and third-party digital content and applications. The Company sells its products worldwide through its retail stores, online stores and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers and value-added resellers. In addition, the Company sells a variety of third-party Apple compatible products, including application software and various accessories through its online and retail stores. The Company sells to consumers, small and mid-sized businesses and education, enterprise and government customers.

Fiscal 2015 Highlights

Net sales rose 28% or $50.9 billion during 2015 compared to 2014, driven by a 52% year-over-year increase in iPhone® net sales. iPhone net sales and unit sales in 2015 increased in all of the Company's reportable operating segments. The Company also experienced year-over-year net sales increases in Mac®, Services and Other Products. Apple Watch®, which launched during the third quarter of 2015, accounted for more than 100% of the year-over-year growth in net sales of Other Products. Net sales growth during 2015 was partially offset by the effect of weakness in most foreign currencies relative to the U.S. dollar and lower iPad® net sales. Total net sales increased in each of the Company's reportable operating segments, with particularly strong growth in Greater China where year-over-year net sales increased 84%.

In April 2015, the Company announced a significant increase to its capital return program by raising the expected total size of the program to $200 billion through March 2017. This included increasing its share repurchase authorization to $140 billion and raising its quarterly dividend to $0.52 per share beginning in May 2015. During 2015, the Company spent $36.0 billion to repurchase shares of its common stock and paid dividends and dividend equivalents of $11.6 billion. Additionally, the Company issued $14.5 billion of U.S. dollar-denominated, €4.8 billion of euro-denominated, SFr1.3 billion of Swiss franc-denominated, £1.3 billion of British pound-denominated, A$2.3 billion of Australian dollar-denominated and ¥250.0 billion of Japanese yen-denominated term debt during 2015.

Fiscal 2014 Highlights

Net sales rose 7% or $11.9 billion during 2014 compared to 2013. This was driven by increases in net sales of iPhone, Mac and Services. Net sales and unit sales increased for iPhone primarily due to the successful introduction of iPhone 5s and 5c in the latter half of calendar year 2013, the successful launch of iPhone 6 and 6 Plus beginning in the fourth quarter of 2014, and expanded distribution. Mac net sales and unit sales increased primarily due to strong demand for MacBook Air® and MacBook Pro® which were updated in 2014 with faster processors and offered at lower prices. Net sales of Services grew primarily due to increased revenue from sales through the App Store®, AppleCare ® and licensing. Growth in these areas was partially offset by the year-over-year decline in net sales for iPad due to lower unit sales in many markets, and a decline in net sales of Other Products. All of the Company's operating segments other than the Rest of Asia Pacific segment experienced increased net sales in 2014, with growth being strongest in the Greater China and Japan operating segments.

During 2014, the Company completed various business acquisitions, including the acquisitions of Beats Music, LLC, which offers a subscription streaming music service, and Beats Electronics, LLC, which makes Beats® headphones, speakers and audio software.

Table of Contents

In April 2014, the Company increased its share repurchase authorization to $90 billion and the quarterly dividend was raised to $0.47 per common share, resulting in an overall increase in its capital return program from $100 billion to over $130 billion. During 2014, the Company utilized $45 billion to repurchase its common stock and paid dividends and dividend equivalents of $11.1 billion. The Company also issued $12.0 billion of long-term debt during 2014, with varying maturities through 2044, and launched a commercial paper program, with $6.3 billion outstanding as of September 27, 2014.

Sales Data

The following table shows net sales by operating segment and net sales and unit sales by product during 2015, 2014 and 2013 (dollars in millions and units in thousands):

	2015	Change	2014	Change	2013
Net Sales by Operating Segment:					
Americas	$ 93,864	17%	$ 80,095	4%	$ 77,093
Europe	50,337	14%	44,285	8%	40,980
Greater China	58,715	84%	31,853	18%	27,016
Japan	15,706	3%	15,314	11%	13,782
Rest of Asia Pacific	15,093	34%	11,248	(7)%	12,039
Total net sales	$ 233,715	28%	$ 182,795	7%	$ 170,910
Net Sales by Product:					
iPhone (1)	$ 155,041	52%	$ 101,991	12%	$ 91,279
iPad (1)	23,227	(23)%	30,283	(5)%	31,980
Mac (1)	25,471	6%	24,079	12%	21,483
Services (2)	19,909	10%	18,063	13%	16,051
Other Products (1)(3)	10,067	20%	8,379	(17)%	10,117
Total net sales	$ 233,715	28%	$ 182,795	7%	$ 170,910
Unit Sales by Product:					
iPhone	231,218	37%	169,219	13%	150,257
iPad	54,856	(19)%	67,977	(4)%	71,033
Mac	20,587	9%	18,906	16%	16,341

(1) Includes deferrals and amortization of related software upgrade rights and non-software services.

(2) Includes revenue from the iTunes Store®, App Store, Mac App Store, iBooks Store™ and Apple Music™ (collectively “Internet Services”), AppleCare, Apple Pay®, licensing and other services.

(3) Includes sales of Apple TV®, Apple Watch, Beats products, iPod and Apple-branded and third-party accessories.

Table of Contents

Product Performance

iPhone

The following table presents iPhone net sales and unit sales information for 2015, 2014 and 2013 (dollars in millions and units in thousands):

	2015	Change	2014	Change	2013
Net sales	$ 155,041	52%	$ 101,991	12%	$ 91,279
Percentage of total net sales	66%		56%		53%
Unit sales	231,218	37%	169,219	13%	150,257

The year-over-year growth in iPhone net sales and unit sales during 2015 primarily resulted from strong demand for iPhone 6 and 6 Plus during 2015. Overall average selling prices ("ASPs") for iPhone increased by 11% during 2015 compared to 2014, due primarily to the introduction of iPhone 6 and 6 Plus in September 2014, partially offset by the effect of weakness in most foreign currencies relative to the U.S. dollar.

The year-over-year growth in iPhone net sales and unit sales in 2014 resulted primarily from the successful introduction of new iPhones in the latter half of calendar year 2013, the successful launch of iPhone 6 and 6 Plus beginning in September 2014, and expanded distribution. iPhone unit sales grew in all of the Company's operating segments, while iPhone net sales grew in all segments except Rest of Asia Pacific. Overall ASPs for iPhone were relatively flat in 2014 compared to 2013, with growth in ASPs in the Americas segment being offset by a decline in ASPs in the Greater China, Japan and Rest of Asia Pacific segments.

iPad

The following table presents iPad net sales and unit sales information for 2015, 2014 and 2013 (dollars in millions and units in thousands):

	2015	Change	2014	Change	2013
Net sales	$ 23,227	(23)%	$ 30,283	(5)%	$ 31,980
Percentage of total net sales	10%		17%		19%
Unit sales	54,856	(19)%	67,977	(4)%	71,033

Net sales and unit sales for iPad declined during 2015 compared to 2014. The Company believes the decline in iPad sales is due in part to a longer repurchase cycle for iPads and some level of cannibalization from the Company's other products. iPad ASPs declined by 5% during 2015 compared to 2014, primarily as a result of the effect of weakness in most foreign currencies relative to the U.S. dollar and a shift in mix to lower-priced iPads.

Net sales and unit sales for iPad declined in 2014 compared to 2013. iPad net sales and unit sales grew in the Greater China and Japan segments but this growth was more than offset by a decline in all other segments. Overall iPad ASPs were relatively flat in 2014 compared to 2013 with a shift in mix to higher-priced iPads being offset by the October 2013 price reduction of iPad mini™. ASPs increased in the Japan and Rest of Asia Pacific segments but were slightly down in other segments.

Mac

The following table presents Mac net sales and unit sales information for 2015, 2014 and 2013 (dollars in millions and units in thousands):

	2015	Change	2014	Change	2013
Net sales	$ 25,471	6%	$ 24,079	12%	$ 21,483
Percentage of total net sales	11%		13%		13%
Unit sales	20,587	9%	18,906	16%	16,341

The year-over-year growth in Mac net sales and unit sales during 2015 was driven by strong demand for Mac portables. Mac ASPs declined 3% during 2015 compared to 2014 largely due to the effect of weakness in most foreign currencies relative to the U.S. dollar.

The year-over-year growth in Mac net sales and unit sales for 2014 was primarily driven by increased sales of MacBook Air, MacBook Pro and Mac Pro. Mac net sales and unit sales increased in all of the Company's operating segments. Mac ASPs decreased during 2014 compared to 2013 primarily due to price reductions on certain Mac models and a shift in mix towards Mac portable systems.

Table of Contents

Services

The following table presents net sales information of Services for 2015, 2014 and 2013 (dollars in millions):

	2015	Change	2014	Change	2013
Net sales	$ 19,909	10%	$ 18,063	13%	$ 16,051
Percentage of total net sales	9%		10%		9%

The increase in net sales of Services during 2015 compared to 2014 was primarily due to growth from Internet Services and licensing. The App Store, included within Internet Services, generated strong year-over-year net sales growth of 29%.

The increase in net sales of Services in 2014 compared to 2013 was primarily due to growth in net sales from Internet Services, AppleCare and licensing. Internet Services generated a total of $10.2 billion in net sales during 2014 compared to $9.3 billion during 2013. Growth in net sales from Internet Services was driven by increases in revenue from app sales reflecting continued growth in the installed base of iOS devices and the expanded offerings of iOS apps and related in-app purchases. This was partially offset by a decline in sales of digital music.

Segment Operating Performance

The Company manages its business primarily on a geographic basis. The Company's reportable operating segments consist of the Americas, Europe, Greater China, Japan and Rest of Asia Pacific. The Americas segment includes both North and South America. The Europe segment includes European countries, as well as India, the Middle East and Africa. The Greater China segment includes China, Hong Kong and Taiwan. The Rest of Asia Pacific segment includes Australia and those Asian countries not included in the Company's other reportable operating segments. Although, each reportable operating segment provides similar hardware and software products and similar services, they are managed separately to better align with the location of the Company's customers and distribution partners and the unique market dynamics of each geographic region. Further information regarding the Company's reportable operating segments can be found in Part II, Item 8 of this Form 10-K in the Notes to Consolidated Financial Statements in Note 11, "Segment Information and Geographic Data."

Americas

The following table presents Americas net sales information for 2015, 2014 and 2013 (dollars in millions):

	2015	Change	2014	Change	2013
Net sales	$ 93,864	17%	$ 80,095	4%	$ 77,093
Percentage of total net sales	40%		44%		45%

The year-over-year growth in Americas net sales during 2015 was driven primarily by growth in net sales and unit sales of iPhone, partially offset by a decline in net sales and unit sales of iPad.

The growth in the Americas segment in 2014 was due to increased net sales of iPhone, Mac and Services that was partially offset by a decline in net sales of iPad and Other Products and weakness in foreign currencies relative to the U.S. dollar compared to 2013. iPhone growth resulted primarily from the successful introduction of iPhone 5s and 5c in September 2013 and the successful launch of iPhone 6 and 6 Plus in September 2014. Mac growth was driven primarily by increased net sales and unit sales of MacBook Air and Mac Pro.

Europe

The following table presents Europe net sales information for 2015, 2014 and 2013 (dollars in millions):

	2015	Change	2014	Change	2013
Net sales	$ 50,337	14%	$ 44,285	8%	$ 40,980
Percentage of total net sales	22%		24%		24%

The year-over-year increase in Europe net sales during 2015 was driven primarily by growth in net sales and unit sales of iPhone, partially offset by the effect of weakness in foreign currencies relative to the U.S. dollar and a decline in net sales and unit sales of iPad.

The growth in the Europe segment in 2014 was due to increased net sales of iPhone, Mac and Services, as well as strength in European currencies relative to the U.S. dollar, partially offset by a decline in net sales of iPad. iPhone growth resulted primarily from the successful introduction of iPhone 5s and 5c in the second half of calendar 2013 and the successful launch of iPhone 6 and 6 Plus in over 20

countries in Europe in September 2014. Mac growth was driven primarily by increased net sales and unit sales of MacBook Air, MacBook Pro and Mac Pro.

Table of Contents

Greater China

The following table presents Greater China net sales information for 2015, 2014 and 2013 (dollars in millions):

	2015	Change	2014	Change	2013
Net sales	$ 58,715	84%	$ 31,853	18%	$ 27,016
Percentage of total net sales	25%		17%		16%

Greater China experienced strong year-over-year increases in net sales during 2015 driven primarily by iPhone sales.

The Greater China segment experienced year-over-year growth in net sales in 2014 that was significantly higher than the growth rate for the Company overall. Greater China growth was driven by higher unit sales and net sales of all major product categories, in addition to higher net sales of Services. Growth in net sales and unit sales of iPhone was especially strong, driven by the successful launch of iPhone 5s and 5c in Mainland China and Hong Kong in September 2013, the successful launch of iPhone 6 and 6 Plus in Hong Kong in September 2014, increased demand for the Company's entry-priced iPhones and the addition of a significant new carrier in the second quarter of 2014.

Japan

The following table presents Japan net sales information for 2015, 2014 and 2013 (dollars in millions):

	2015	Change	2014	Change	2013
Net sales	$ 15,706	3%	$ 15,314	11%	$ 13,782
Percentage of total net sales	7%		8%		8%

The year-over-year increase in Japan net sales during 2015 was driven primarily by growth in Services largely associated with strong App Store sales, partially offset by the effect of weakness in the Japanese yen relative to the U.S. dollar.

In 2014 the Japan segment generated year-over-year increases in net sales and unit sales of every major product category and experienced growth in net sales of Services. The year-over-year growth in iPhone was driven by the successful launch of iPhone 5s and 5c in September 2013, the successful launch of iPhone 6 and 6 Plus in September 2014, increased demand for the Company's entry-priced iPhones and the addition of a significant new carrier in the fourth quarter of 2013. These positive factors were partially offset by weakness in the Japanese Yen relative to the U.S. dollar.

Rest of Asia Pacific

The following table presents Rest of Asia Pacific net sales information for 2015, 2014 and 2013 (dollars in millions):

	2015	Change	2014	Change	2013
Net sales	$ 15,093	34%	$ 11,248	(7)%	$ 12,039
Percentage of total net sales	6%		6%		7%

The year-over-year increase in Rest of Asia Pacific net sales during 2015 primarily reflects strong growth in net sales and unit sales of iPhone, partially offset by the effect of weakness in foreign currencies relative to the U.S. dollar and a decline in net sales and unit sales of iPad.

Net sales in the Rest of Asia Pacific segment declined in 2014 compared to 2013 due to year-over-year reductions in net sales in all major product categories except Mac and reductions in unit sales of iPad. Net sales in 2014 were also negatively affected by the weakness in several foreign currencies relative to the U.S. dollar, including the Australian dollar.

Table of Contents

Gross Margin

Gross margin for 2015, 2014 and 2013 is as follows (dollars in millions):

	2015	2014	2013
Net sales	$ 233,715	$ 182,795	$ 170,910
Cost of sales	140,089	112,258	106,606
Gross margin	$ 93,626	$ 70,537	$ 64,304
Gross margin percentage	40.1%	38.6%	37.6%

The year-over-year increase in the gross margin percentage in 2015 was driven primarily by a favorable shift in mix to products with higher margins and, to a lesser extent, by improved leverage on fixed costs from higher net sales. These positive factors were partially offset primarily by higher product cost structures and, to a lesser extent, by the effect of weakness in most foreign currencies relative to the U.S. dollar.

The year-over-year increase in the gross margin percentage in 2014 was driven by multiple factors including lower commodity costs, a favorable shift in mix to products with higher margins and improved leverage on fixed costs from higher net sales, which was partially offset by the weakness in several foreign currencies relative to the U.S. dollar, price reductions on select products and higher cost structures on certain new products.

The Company anticipates gross margin during the first quarter of 2016 to be between 39% and 40%. The foregoing statement regarding the Company's expected gross margin percentage in the first quarter of 2016 is forward-looking and could differ from actual results. The Company's future gross margins can be impacted by multiple factors including, but not limited to, those set forth in Part I, Item 1A of this Form 10-K under the heading "Risk Factors" and those described in this paragraph. In general, the Company believes gross margins will remain under downward pressure due to a variety of factors, including continued industry wide global product pricing pressures, increased competition, compressed product life cycles, product transitions, potential increases in the cost of components, and potential strengthening of the U.S. dollar, as well as potential increases in the costs of outside manufacturing services and a potential shift in the Company's sales mix towards products with lower gross margins. In response to competitive pressures, the Company expects it will continue to take product pricing actions, which would adversely affect gross margins. Gross margins could also be affected by the Company's ability to manage product quality and warranty costs effectively and to stimulate demand for certain of its products. Due to the Company's significant international operations, its financial condition and operating results, including gross margins, could be significantly affected by fluctuations in exchange rates.

Operating Expenses

Operating expenses for 2015, 2014 and 2013 are as follows (dollars in millions):

	2015	Change	2014	Change	2013
Research and development	$ 8,067	34%	$ 6,041	35%	$ 4,475
Percentage of total net sales	3%		3%		3%
Selling, general and administrative	$ 14,329	19%	$ 11,993	11%	$ 10,830
Percentage of total net sales	6%		7%		6%
Total operating expenses	$ 22,396	24%	$ 18,034	18%	$ 15,305
Percentage of total net sales	10%		10%		9%

Research and Development

The year-over-year growth in R&D expense in 2015 and 2014 was driven primarily by an increase in headcount and related expenses, including share-based compensation costs, and material costs to support expanded R&D activities. The Company continues to believe that focused investments in R&D are critical to its future growth and competitive position in the marketplace and are directly related to timely development of new and updated products that are central to the Company's core business strategy.

Selling, General and Administrative

The year-over-year growth in selling, general and administrative expense in 2015 and 2014 was primarily due to increased headcount and related expenses, including share-based compensation costs, and higher spending on marketing and advertising.

Table of Contents

Other Income/(Expense), Net

Other income/(expense), net for 2015, 2014 and 2013 are as follows (dollars in millions):

	2015	Change	2014	Change	2013
Interest and dividend income	$ 2,921		$ 1,795		$ 1,616
Interest expense	(733)		(384)		(136)
Other expense, net	(903)		(431)		(324)
Total other income/(expense), net	$ 1,285	31%	$ 980	(15)%	$ 1,156

The increase in other income/(expense), net during 2015 compared to 2014 was due primarily to higher interest income, partially offset by higher expenses associated with foreign exchange activity and higher interest expense on debt. The decrease in other income and expense during 2014 compared to 2013 was due primarily to higher interest expense on debt and higher expenses associated with foreign exchange rate movements, partially offset by lower premium expenses on foreign exchange contracts and higher interest income. The weighted-average interest rate earned by the Company on its cash, cash equivalents and marketable securities was 1.49%, 1.11% and 1.03% in 2015, 2014 and 2013, respectively.

Provision for Income Taxes

Provision for income taxes and effective tax rates for 2015, 2014 and 2013 are as follows (dollars in millions):

	2015	2014	2013
Provision for income taxes	$ 19,121	$ 13,973	$ 13,118
Effective tax rate	26.4%	26.1%	26.2%

The Company's effective tax rates for 2015, 2014 and 2013 differ from the statutory federal income tax rate of 35% due primarily to certain undistributed foreign earnings, a substantial portion of which was generated by subsidiaries organized in Ireland, for which no U.S. taxes are provided when such earnings are intended to be indefinitely reinvested outside the U.S. The higher effective tax rate during 2015 compared to 2014 was due primarily to higher foreign taxes. The effective tax rate in 2014 compared to 2013 was relatively flat.

As of September 26, 2015, the Company had deferred tax assets arising from deductible temporary differences, tax losses and tax credits of $7.8 billion and deferred tax liabilities of $24.1 billion. Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with future reversals of existing taxable temporary differences, will be sufficient to fully recover the deferred tax assets. The Company will continue to evaluate the realizability of deferred tax assets quarterly by assessing the need for and the amount of a valuation allowance.

The U.S. Internal Revenue Service is currently examining the years 2010 through 2012, and all years prior to 2010 are closed. In addition, the Company is subject to audits by state, local and foreign tax authorities. In major states and major foreign jurisdictions, the years subsequent to 2003 generally remain open and could be subject to examination by the taxing authorities. Management believes that adequate provisions have been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs.

On June 11, 2014, the European Commission issued an opening decision initiating a formal investigation against Ireland for alleged state aid to the Company. The opening decision concerns the allocation of profits for taxation purposes of the Irish branches of two subsidiaries of the Company. The Company believes the European Commission's assertions are without merit. If the European Commission were to conclude against Ireland, the European Commission could require Ireland to recover from the Company past taxes covering a period of up to 10 years reflective of the disallowed state aid. While such amount could be material, as of September 26, 2015 the Company is unable to estimate the impact.

Table of Contents

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) ("ASU 2014-09"), which amends the existing accounting standards for revenue recognition. ASU 2014-09 is based on principles that govern the recognition of revenue at an amount an entity expects to be entitled when products are transferred to customers.

The original effective date for ASU 2014-09 would have required the Company to adopt beginning in its first quarter of 2018. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606) – Deferral of the Effective Date, which defers the effective date of ASU 2014-09 for one year and permits early adoption as early as the original effective date of ASU 2014-09. Accordingly, the Company may adopt the standard in either its first quarter of 2018 or 2019. The new revenue standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption. The Company is currently evaluating the timing of its adoption and the impact of adopting the new revenue standard on its consolidated financial statements.

Liquidity and Capital Resources

The following table presents selected financial information and statistics as of and for the years ended September 26, 2015, September 27, 2014 and September 28, 2013 (in millions):

	2015	2014	2013
Cash, cash equivalents and marketable securities	$ 205,666	$ 155,239	$ 146,761
Property, plant and equipment, net	$ 22,471	$ 20,624	$ 16,597
Commercial paper	$ 8,499	$ 6,308	$ 0
Total term debt	$ 55,963	$ 28,987	$ 16,960
Working capital	$ 8,768	$ 5,083	$ 29,628
Cash generated by operating activities	$ 81,266	$ 59,713	$ 53,666
Cash used in investing activities	$ (56,274)	$ (22,579)	$ (33,774)
Cash used in financing activities	$ (17,716)	$ (37,549)	$ (16,379)

The Company believes its existing balances of cash, cash equivalents and marketable securities will be sufficient to satisfy its working capital needs, capital asset purchases, outstanding commitments and other liquidity requirements associated with its existing operations over the next 12 months. The Company currently anticipates the cash used for future dividends, the share repurchase program and debt repayments will come from its current domestic cash, cash generated from on-going U.S. operating activities and from borrowings.

As of September 26, 2015 and September 27, 2014, the Company's cash, cash equivalents and marketable securities held by foreign subsidiaries were $186.9 billion and $137.1 billion, respectively, and are generally based in U.S. dollar-denominated holdings. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S. The Company's marketable securities investment portfolio is invested primarily in highly-rated securities and its investment policy generally limits the amount of credit exposure to any one issuer. The policy requires investments generally to be investment grade with the objective of minimizing the potential risk of principal loss.

During 2015, cash generated from operating activities of $81.3 billion was a result of $53.4 billion of net income, non-cash adjustments to net income of $16.2 billion and an increase in the net change in operating assets and liabilities of $11.7 billion. Cash used in investing activities of $56.3 billion during 2015 consisted primarily of cash used for purchases of marketable securities, net of sales and maturities, of $44.4 billion and cash used to acquire property, plant and equipment of $11.2 billion. Cash used in financing activities of $17.7 billion during 2015 consisted primarily of cash used to repurchase common stock of $35.3 billion and cash used to pay dividends and dividend equivalents of $11.6 billion, partially offset by net proceeds from the issuance of term debt of $27.1 billion.

During 2014, cash generated from operating activities of $59.7 billion was a result of $39.5 billion of net income, non-cash adjustments to net income of $13.2 billion and an increase in net change in operating assets and liabilities of $7.0 billion. Cash used in investing activities of $22.6 billion during 2014 consisted primarily of cash used for purchases of marketable securities, net of sales and maturities, of $9.0 billion; cash used to acquire property, plant and equipment of $9.6 billion; and cash paid for business acquisitions, net of cash acquired, of $3.8 billion. Cash used in financing activities of $37.5 billion during 2014 consisted primarily of cash used to repurchase common stock of $45.0 billion and cash used to pay dividends and dividend equivalents of $11.1 billion, partially offset by net proceeds from the issuance of term debt and commercial paper of $12.0 billion and $6.3 billion, respectively.

Table of Contents

Capital Assets

The Company's capital expenditures were $11.2 billion during 2015. The Company anticipates utilizing approximately $15.0 billion for capital expenditures during 2016, which includes product tooling and manufacturing process equipment; data centers; corporate facilities and infrastructure, including information systems hardware, software and enhancements; and retail store facilities.

Debt

In 2014, the Board of Directors authorized the Company to issue unsecured short-term promissory notes ("Commercial Paper") pursuant to a commercial paper program. The Company intends to use the net proceeds from the commercial paper program for general corporate purposes, including dividends and share repurchases. As of September 26, 2015, the Company had $8.5 billion of Commercial Paper outstanding, with a weighted-average interest rate of 0.14% and maturities generally less than nine months.

As of September 26, 2015, the Company has outstanding floating- and fixed-rate notes for an aggregate principal amount of $55.7 billion (collectively the "Notes"). The Company has entered, and in the future may enter, into interest rate swaps to manage interest rate risk on the Notes. In addition, the Company has entered, and in the future may enter, into currency swaps to manage foreign currency risk on the Notes. The future principal payments for the Company's Notes as of September 26, 2015 are as follows (in millions):

2016	$ 2,500
2017	3,500
2018	6,000
2019	3,775
2020	5,581
Thereafter	34,345
Total term debt	$ 55,701

Further information regarding the Company's debt issuances and related hedging activity can be found in Part II, Item 8 of this Form 10-K in the Notes to the Consolidated Financial Statements in Note 2, "Financial Instruments" and Note 6, "Debt."

Capital Return Program

In April 2015, the Company's Board of Directors increased the share repurchase program authorization from $90 billion to $140 billion of the Company's common stock, increasing the expected total size of the capital return program to $200 billion. The Company expects to execute the capital return program by the end of March 2017 by paying dividends and dividend equivalents, repurchasing shares and remitting withheld taxes related to net share settlement of restricted stock units. To assist in funding its capital return program, the Company expects to continue to access the debt markets, both domestically and internationally. As of September 26, 2015, $104 billion of the share repurchase program has been utilized. The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under the program, shares may be repurchased in privately negotiated or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended.

In April 2015, the Company's Board of Directors raised the quarterly cash dividend by 11%. The Company plans to increase its dividend on an annual basis subject to declaration by the Board of Directors.

The following table presents the Company's dividends, dividend equivalents, share repurchases and net share settlement activity from the start of the capital return program in August 2012 through September 26, 2015 (in millions):

	Dividends and Dividend Equivalents Paid	Accelerated Share Repurchases	Open Market Share Repurchases	Taxes Related to Settlement of Equity Awards	Total
2015	$ 11,561	$ 6,000	$ 30,026	$ 1,499	$ 49,086
2014	11,126	21,000	24,000	1,158	57,284
2013	10,564	13,950	9,000	1,082	34,596
2012	2,488	0	0	56	2,544
Total	$ 35,739	$ 40,950	$ 63,026	$ 3,795	$ 143,510

Table of Contents

Off-Balance Sheet Arrangements and Contractual Obligations

The Company has not entered into any transactions with unconsolidated entities whereby the Company has financial guarantees, subordinated retained interests, derivative instruments, or other contingent arrangements that expose the Company to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing, liquidity, market risk, or credit risk support to the Company, or engages in leasing, hedging, or R&D services with the Company.

The following table presents certain payments due by the Company under contractual obligations with minimum firm commitments as of September 26, 2015, and excludes amounts already recorded on the Consolidated Balance Sheet, except for term debt (in millions):

	Payments Due in Less Than 1 Year	Payments Due in 1-3 Years	Payments Due in 4-5 Years	Payments Due in More Than 5 Years	Total
Term debt	$ 2,500	$ 9,500	$ 9,356	$ 34,345	$ 55,701
Operating leases	772	1,518	1,389	2,592	6,271
Purchase commitments	29,464	0	0	0	29,464
Other obligations	4,553	1,898	53	757	7,261
Total	$ 37,289	$ 12,916	$ 10,798	$ 37,694	$ 98,697

Operating Leases

The Company's major facility leases are typically for terms not exceeding 10 years and generally contain multi-year renewal options. As of September 26, 2015, the Company had a total of 463 retail stores. Leases for retail space are for terms ranging from five to 20 years, the majority of which are for 10 years, and often contain multi-year renewal options. As of September 26, 2015, the Company's total future minimum lease payments under noncancelable operating leases were $6.3 billion, of which $3.6 billion related to leases for retail space.

Purchase Commitments

The Company utilizes several outsourcing partners to manufacture sub-assemblies for the Company's products and to perform final assembly and testing of finished products. These outsourcing partners acquire components and build product based on demand information supplied by the Company, which typically covers periods up to 150 days. The Company also obtains individual components for its products from a wide variety of individual suppliers. Consistent with industry practice, the Company acquires components through a combination of purchase orders, supplier contracts, and open orders based on projected demand information. Where appropriate, the purchases are applied to inventory component prepayments that are outstanding with the respective supplier. As of September 26, 2015, the Company had outstanding off-balance sheet third-party manufacturing commitments and component purchase commitments of $29.5 billion.

Other Obligations

The Company's other off-balance sheet obligations were comprised of commitments to acquire capital assets, including product tooling and manufacturing process equipment, and commitments related to inventory prepayments, advertising, licensing, R&D, internet and telecommunications services, energy and other obligations.

The Company's other non-current liabilities in the Consolidated Balance Sheets consist primarily of deferred tax liabilities, gross unrecognized tax benefits and the related gross interest and penalties. As of September 26, 2015, the Company had non-current deferred tax liabilities of $24.1 billion. Additionally, as of September 26, 2015, the Company had gross unrecognized tax benefits of $6.9 billion and an additional $1.3 billion for gross interest and penalties classified as non-current liabilities. At this time, the Company is unable to make a reasonably reliable estimate of the timing of payments in individual years in connection with these tax liabilities; therefore, such amounts are not included in the above contractual obligation table.

Indemnification

The Company generally does not indemnify end-users of its operating system and application software against legal claims that the software infringes third-party intellectual property rights. Other agreements entered into by the Company sometimes include indemnification provisions under which the Company could be subject to costs and/or damages in the event of an infringement claim against the Company or an indemnified third-party. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss with respect to indemnification of end-users of its operating system or application software for infringement of third-party intellectual property rights. The Company did not record a liability for infringement costs related to indemnification as of September 26, 2015 or September 27, 2014.

Table of Contents

In September 2015, the Company introduced the iPhone Upgrade Program, which is available to customers who purchase an iPhone 6s and 6s Plus in one of its U.S. physical retail stores and activate the purchased iPhone with one of the four national carriers. The iPhone Upgrade Program provides customers the right to trade in that iPhone for a new iPhone, provided certain conditions are met. One of the conditions of this program requires the customer to finance the initial purchase price of the iPhone with a third-party lender. Upon exercise of the trade-in right and purchase of a new iPhone, the Company satisfies the customer's outstanding balance due to the third-party lender on the original device. The Company accounts for the trade-in right as a guarantee liability and recognizes arrangement revenue net of the fair value of such right with subsequent changes to the guarantee liability recognized within revenue.

The Company has entered into indemnification agreements with its directors and executive officers. Under these agreements, the Company has agreed to indemnify such individuals to the fullest extent permitted by law against liabilities that arise by reason of their status as directors or officers and to advance expenses incurred by such individuals in connection with related legal proceedings. It is not possible to determine the maximum potential amount of payments the Company could be required to make under these agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each claim. However, the Company maintains directors and officers liability insurance coverage to reduce its exposure to such obligations.

Critical Accounting Policies and Estimates

The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles ("GAAP") and the Company's discussion and analysis of its financial condition and operating results require the Company's management to make judgments, assumptions and estimates that affect the amounts reported in its consolidated financial statements and accompanying notes. Note 1, "Summary of Significant Accounting Policies," of the Notes to Consolidated Financial Statements in Part II, Item 8 of this Form 10-K describes the significant accounting policies and methods used in the preparation of the Company's consolidated financial statements. Management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results may differ from these estimates, and such differences may be material.

Management believes the Company's critical accounting policies and estimates are those related to revenue recognition, valuation and impairment of marketable securities, inventory valuation and valuation of manufacturing-related assets and estimated purchase commitment cancellation fees, warranty costs, income taxes, and legal and other contingencies. Management considers these policies critical because they are both important to the portrayal of the Company's financial condition and operating results, and they require management to make judgments and estimates about inherently uncertain matters. The Company's senior management has reviewed these critical accounting policies and related disclosures with the Audit and Finance Committee of the Company's Board of Directors.

Revenue Recognition

Net sales consist primarily of revenue from the sale of hardware, software, digital content and applications, accessories, and service and support contracts. 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. Product is considered delivered to the customer once it has been shipped and title, risk of loss and rewards of ownership have been transferred. For most of the Company's product sales, these criteria are met at the time the product is shipped. For online sales to individuals, for some sales to education customers in the U.S., and for certain other sales, the Company defers revenue until the customer receives the product because the Company retains a portion of the risk of loss on these sales during transit. For payment terms in excess of the Company's standard payment terms, revenue is recognized as payments become due unless the Company has positive evidence that the sales price is fixed or determinable, such as a successful history of collection, without concession, on comparable arrangements. The Company recognizes revenue from the sale of hardware products, software bundled with hardware that is essential to the functionality of the hardware and third-party digital content sold on the iTunes Store in accordance with general revenue recognition accounting guidance. The Company recognizes revenue in accordance with industry-specific software accounting guidance for the following types of sales transactions: (i) standalone sales of software products, (ii) sales of software upgrades and (iii) sales of software bundled with hardware not essential to the functionality of the hardware.

For multi-element arrangements that include hardware products containing software essential to the hardware product's functionality, undelivered software elements that relate to the hardware product's essential software and/or undelivered non-software services, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price ("TPE") and (iii) best estimate of selling price ("ESP"). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company's best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

Table of Contents

For sales of qualifying versions of iOS devices, Mac, Apple Watch and Apple TV, the Company has indicated it may from time to time provide future unspecified software upgrades to the device's essential software and/or non-software services free of charge. Because the Company has neither VSOE nor TPE for the unspecified software upgrade rights or the non-software services, revenue is allocated to these rights and services based on the Company's ESPs. Revenue allocated to the unspecified software upgrade rights and non-software services based on the Company's ESPs is deferred and recognized on a straight-line basis over the estimated period the software upgrades and non-software services are expected to be provided.

The Company's process for determining ESPs involves management's judgment and considers multiple factors that may vary over time depending upon the unique facts and circumstances related to each deliverable. Should future facts and circumstances change, the Company's ESPs and the future rate of related amortization for unspecified software upgrades and non-software services related to future sales of these devices could change. Factors subject to change include the unspecified software upgrade rights and non-software services offered, the estimated value of unspecified software upgrade rights and non-software services and the estimated period unspecified software upgrades and non-software services are expected to be provided.

The Company records reductions to revenue for estimated commitments related to price protection and other customer incentive programs. For transactions involving price protection, the Company recognizes revenue net of the estimated amount to be refunded, provided the refund amount can be reasonably and reliably estimated and the other conditions for revenue recognition have been met. The Company's policy requires that, if refunds cannot be reliably estimated, revenue is not recognized until reliable estimates can be made or the price protection lapses. For the Company's other customer incentive programs, the estimated cost is recognized at the later of the date at which the Company has sold the product or the date at which the program is offered. The Company also records reductions to revenue for expected future product returns based on the Company's historical experience. Future market conditions and product transitions may require the Company to increase customer incentive programs that could result in reductions to future revenue. Additionally, certain customer incentive programs require management to estimate the number of customers who will actually redeem the incentive. Management's estimates are based on historical experience and the specific terms and conditions of particular incentive programs. If a greater than estimated proportion of customers redeems such incentives, the Company would be required to record additional reductions to revenue, which would have an adverse impact on the Company's operating results.

Valuation and Impairment of Marketable Securities

The Company's investments in available-for-sale securities are reported at fair value. Unrealized gains and losses related to changes in the fair value of securities are recognized in accumulated other comprehensive income, net of tax, in the Company's Consolidated Balance Sheets. Changes in the fair value of available-for-sale securities impact the Company's net income only when such securities are sold or an other-than-temporary impairment is recognized. Realized gains and losses on the sale of securities are determined by specific identification of each security's cost basis. The Company regularly reviews its investment portfolio to determine if any security is other-than-temporarily impaired, which would require the Company to record an impairment charge in the period any such determination is made. In making this judgment, the Company evaluates, among other things, the duration and extent to which the fair value of a security is less than its cost; the financial condition of the issuer and any changes thereto; and the Company's intent to sell, or whether it will more likely than not be required to sell, the security before recovery of its amortized cost basis. The Company's assessment on whether a security is other-than-temporarily impaired could change in the future due to new developments or changes in assumptions related to any particular security, which would have an adverse impact on the Company's operating results.

Inventory Valuation and Valuation of Manufacturing-Related Assets and Estimated Purchase Commitment Cancellation Fees

The Company must purchase components and build inventory in advance of product shipments and has invested in manufacturing-related assets, including capital assets held at its suppliers' facilities. In addition, the Company has made prepayments to certain of its suppliers associated with long-term supply agreements to secure supply of inventory components. The Company records a write-down for inventories of components and products, including third-party products held for resale, which have become obsolete or are in excess of anticipated demand or net realizable value. The Company performs a detailed review of inventory that considers multiple factors including demand forecasts, product life cycle status, product development plans, current sales levels and component cost trends. The Company also reviews its manufacturing-related capital assets and inventory prepayments for impairment whenever events or circumstances indicate the carrying amount of such assets may not be recoverable. If the Company determines that an asset is not recoverable, it records an impairment loss equal to the amount by which the carrying value of such an asset exceeds its fair value.

The industries in which the Company competes are subject to a rapid and unpredictable pace of product and component obsolescence and demand changes. In certain circumstances the Company may be required to record additional write-downs of inventory and/or manufacturing-related assets. These circumstances include future demand or market conditions for the Company's products being less favorable than forecasted, unforeseen technological changes or changes to the Company's product development plans that negatively impact the utility of any of these assets, or significant deterioration in the financial condition of one or more of the Company's suppliers that hold any of the Company's manufacturing-related assets or to whom the Company has made an inventory prepayment. Such

write-downs would adversely affect the Company's financial condition and operating results in the period when the write-downs were recorded.

Table of Contents

The Company accrues for estimated cancellation fees related to inventory orders that have been cancelled or are expected to be cancelled. Consistent with industry practice, the Company acquires components through a combination of purchase orders, supplier contracts, and open orders in each case based on projected demand. Where appropriate, the purchases are applied to inventory component prepayments that are outstanding with the respective supplier. Purchase commitments typically cover the Company's forecasted component and manufacturing requirements for periods up to 150 days. If there is an abrupt and substantial decline in demand for one or more of the Company's products, a change in the Company's product development plans, or an unanticipated change in technological requirements for any of the Company's products, the Company may be required to record additional accruals for cancellation fees that would adversely affect its results of operations in the period when the cancellation fees are identified and recorded.

Warranty Costs

The Company accrues for the estimated cost of warranties at the time the related revenue is recognized based on historical and projected warranty claim rates, historical and projected cost-per-claim and knowledge of specific product failures that are outside of the Company's typical experience. The Company regularly reviews these estimates to assess the adequacy of its recorded warranty liabilities or the current installed base of products subject to warranty protection and adjusts the amounts as necessary. If actual product failure rates or repair costs differ from estimates, revisions to the estimated warranty liabilities would be required and could materially affect the Company's financial condition and operating results.

Income Taxes

The Company records a tax provision for the anticipated tax consequences of its reported operating results. The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets and liabilities are expected to be realized or settled. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

The Company recognizes tax benefits from uncertain tax positions only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement.

Management believes it is more likely than not that forecasted income, including income that may be generated as a result of certain tax planning strategies, together with future reversals of existing taxable temporary differences, will be sufficient to fully recover the deferred tax assets. In the event that the Company determines all or part of the net deferred tax assets are not realizable in the future, the Company will record an adjustment to the valuation allowance that would be charged to earnings in the period such determination is made. In addition, the calculation of tax liabilities involves significant judgment in estimating the impact of uncertainties in the application of GAAP and complex tax laws. Resolution of these uncertainties in a manner inconsistent with management's expectations could have a material impact on the Company's financial condition and operating results.

Legal and Other Contingencies

As discussed in Part I, Item 3 of this Form 10-K under the heading "Legal Proceedings" and in Part II, Item 8 of this Form 10-K in the Notes to Consolidated Financial Statements in Note 10, "Commitments and Contingencies," the Company is subject to various legal proceedings and claims that arise in the ordinary course of business. The Company records a liability when it is probable that a loss has been incurred and the amount is reasonably estimable. There is significant judgment required in both the probability determination and as to whether an exposure can be reasonably estimated. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies for asserted legal and other claims. However, the outcome of legal proceedings and claims brought against the Company is subject to significant uncertainty. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected.

Table of Contents

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate and Foreign Currency Risk Management

The Company regularly reviews its foreign exchange forward and option positions and interest rate swaps, both on a stand-alone basis and in conjunction with its underlying foreign currency and interest rate related exposures. Given the effective horizons of the Company's risk management activities and the anticipatory nature of the exposures, there can be no assurance these positions will offset more than a portion of the financial impact resulting from movements in either foreign exchange or interest rates. Further, the recognition of the gains and losses related to these instruments may not coincide with the timing of gains and losses related to the underlying economic exposures and, therefore, may adversely affect the Company's financial condition and operating results.

Interest Rate Risk

The Company's exposure to changes in interest rates relates primarily to the Company's investment portfolio and outstanding debt. While the Company is exposed to global interest rate fluctuations, the Company's interest income and expense are most sensitive to fluctuations in U.S. interest rates. Changes in U.S. interest rates affect the interest earned on the Company's cash, cash equivalents and marketable securities and the fair value of those securities, as well as costs associated with hedging and interest paid on the Company's debt.

The Company's investment policy and strategy are focused on preservation of capital and supporting the Company's liquidity requirements. The Company uses a combination of internal and external management to execute its investment strategy and achieve its investment objectives. The Company typically invests in highly-rated securities, and its investment policy generally limits the amount of credit exposure to any one issuer. The policy requires investments generally to be investment grade, with the primary objective of minimizing the potential risk of principal loss. To provide a meaningful assessment of the interest rate risk associated with the Company's investment portfolio, the Company performed a sensitivity analysis to determine the impact a change in interest rates would have on the value of the investment portfolio assuming a 100 basis point parallel shift in the yield curve. Based on investment positions as of September 26, 2015 and September 27, 2014, a hypothetical 100 basis point increase in interest rates across all maturities would result in a $4.3 billion and $3.4 billion incremental decline in the fair market value of the portfolio, respectively. Such losses would only be realized if the Company sold the investments prior to maturity.

As of September 26, 2015 and September 27, 2014, the Company had outstanding floating- and fixed-rate notes with varying maturities for an aggregate carrying amount of $56.0 billion and $29.0 billion, respectively. The Company has entered, and may enter in the future, into interest rate swaps to manage interest rate risk on its outstanding term debt. Interest rate swaps allow the Company to effectively convert fixed-rate payments into floating-rate payments or floating-rate payments into fixed-rate payments. Gains and losses on these instruments are generally offset by the corresponding losses and gains on the related hedging instrument. A 100 basis point increase in market interest rates would cause interest expense on the Company's debt as of September 26, 2015 and September 27, 2014 to increase by $200 million and $110 million on an annualized basis, respectively.

Further details regarding the Company's debt is provided in Part II, Item 8 of this Form 10-K in the Notes to Consolidated Financial Statements in Note 6, "Debt."

Foreign Currency Risk

In general, the Company is a net receiver of currencies other than the U.S. dollar. Accordingly, changes in exchange rates, and in particular a strengthening of the U.S. dollar, will negatively affect the Company's net sales and gross margins as expressed in U.S. dollars. There is a risk that the Company will have to adjust local currency product pricing due to competitive pressures when there have been significant volatility in foreign currency exchange rates.

The Company may enter into foreign currency forward and option contracts with financial institutions to protect against foreign exchange risks associated with certain existing assets and liabilities, certain firmly committed transactions, forecasted future cash flows and net investments in foreign subsidiaries. In addition, the Company has entered, and may enter in the future, into non-designated foreign currency contracts to partially offset the foreign currency exchange gains and losses on its foreign-denominated debt issuances. The Company's practice is to hedge a portion of its material foreign exchange exposures, typically for up to 12 months. However, the Company may choose not to hedge certain foreign exchange exposures for a variety of reasons, including but not limited to accounting considerations and the prohibitive economic cost of hedging particular exposures.

Table of Contents

To provide a meaningful assessment of the foreign currency risk associated with certain of the Company's foreign currency derivative positions, the Company performed a sensitivity analysis using a value-at-risk ("VAR") model to assess the potential impact of fluctuations in exchange rates. The VAR model consisted of using a Monte Carlo simulation to generate thousands of random market price paths assuming normal market conditions. The VAR is the maximum expected loss in fair value, for a given confidence interval, to the Company's foreign currency derivative positions due to adverse movements in rates. The VAR model is not intended to represent actual losses but is used as a risk estimation and management tool. The model assumes normal market conditions. Forecasted transactions, firm commitments and assets and liabilities denominated in foreign currencies were excluded from the model. Based on the results of the model, the Company estimates with 95% confidence a maximum one-day loss in fair value of $342 million as of September 26, 2015 compared to a maximum one-day loss in fair value of $240 million as of September 27, 2014. Because the Company uses foreign currency instruments for hedging purposes, the loss in fair value incurred on those instruments are generally offset by increases in the fair value of the underlying exposures.

Actual future gains and losses associated with the Company's investment portfolio and derivative positions may differ materially from the sensitivity analyses performed as of September 26, 2015 due to the inherent limitations associated with predicting the timing and amount of changes in interest rates, foreign currency exchanges rates and the Company's actual exposures and positions.

Table of Contents

Item 8. Financial Statements and Supplementary Data

Index to Consolidated Financial Statements	Page
Consolidated Statements of Operations for the years ended September 26, 2015, September 27, 2014, and September 28, 2013	39
Consolidated Statements of Comprehensive Income for the years ended September 26, 2015, September 27, 2014, and September 28, 2013	40
Consolidated Balance Sheets as of September 26, 2015 and September 27, 2014	41
Consolidated Statements of Shareholders' Equity for the years ended September 26, 2015, September 27, 2014, and September 28, 2013	42
Consolidated Statements of Cash Flows for the years ended September 26, 2015, September 27, 2014, and September 28, 2013	43
Notes to Consolidated Financial Statements	44
Selected Quarterly Financial Information (Unaudited)	68
Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm	69

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto.

Table of Contents

CONSOLIDATED STATEMENTS OF OPERATIONS
(In millions, except number of shares which are reflected in thousands and per share amounts)

	Years ended		
	September 26, 2015	September 27, 2014	September 28, 2013
Net sales	$ 233,715	$ 182,795	$ 170,910
Cost of sales	140,089	112,258	106,606
Gross margin	93,626	70,537	64,304
Operating expenses:			
Research and development	8,067	6,041	4,475
Selling, general and administrative	14,329	11,993	10,830
Total operating expenses	22,396	18,034	15,305
Operating income	71,230	52,503	48,999
Other income/(expense), net	1,285	980	1,156
Income before provision for income taxes	72,515	53,483	50,155
Provision for income taxes	19,121	13,973	13,118
Net income	$ 53,394	$ 39,510	$ 37,037
Earnings per share:			
Basic	$ 9.28	$ 6.49	$ 5.72
Diluted	$ 9.22	$ 6.45	$ 5.68
Shares used in computing earnings per share:			
Basic	5,753,421	6,085,572	6,477,320
Diluted	5,793,069	6,122,663	6,521,634
Cash dividends declared per share	$ 1.98	$ 1.82	$ 1.64

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Years ended		
	September 26, 2015	September 27, 2014	September 28, 2013
Net income	$ 53,394	$ 39,510	$ 37,037
Other comprehensive income/(loss):			
Change in foreign currency translation, net of tax effects of $201, $50 and $35, respectively	(411)	(137)	(112)
Change in unrealized gains/losses on derivative instruments:			
Change in fair value of derivatives, net of tax benefit/(expense) of $(441), $(297) and $(351), respectively	2,905	1,390	522
Adjustment for net (gains)/losses realized and included in net income, net of tax expense/(benefit) of $630, $(36) and $255, respectively	(3,497)	149	(458)
Total change in unrealized gains/losses on derivative instruments, net of tax	(592)	1,539	64
Change in unrealized gains/losses on marketable securities:			
Change in fair value of marketable securities, net of tax benefit/(expense) of $264, $(153) and $458, respectively	(483)	285	(791)
Adjustment for net (gains)/losses realized and included in net income, net of tax expense/(benefit) of $(32), $71 and $82, respectively	59	(134)	(131)
Total change in unrealized gains/losses on marketable securities, net of tax	(424)	151	(922)
Total other comprehensive income/(loss)	(1,427)	1,553	(970)
Total comprehensive income	$ 51,967	$ 41,063	$ 36,067

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED BALANCE SHEETS

(In millions, except number of shares which are reflected in thousands and par value)

	September 26, 2015	September 27, 2014
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 21,120	$ 13,844
Short-term marketable securities	20,481	11,233
Accounts receivable, less allowances of $82 and $86, respectively	16,849	17,460
Inventories	2,349	2,111
Deferred tax assets	5,546	4,318
Vendor non-trade receivables	13,494	9,759
Other current assets	9,539	9,806
Total current assets	89,378	68,531
Long-term marketable securities	164,065	130,162
Property, plant and equipment, net	22,471	20,624
Goodwill	5,116	4,616
Acquired intangible assets, net	3,893	4,142
Other assets	5,556	3,764
Total assets	$ 290,479	$ 231,839
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 35,490	$ 30,196
Accrued expenses	25,181	18,453
Deferred revenue	8,940	8,491
Commercial paper	8,499	6,308
Current portion of long-term debt	2,500	0
Total current liabilities	80,610	63,448
Deferred revenue, non-current	3,624	3,031
Long-term debt	53,463	28,987
Other non-current liabilities	33,427	24,826
Total liabilities	171,124	120,292
Commitments and contingencies		
Shareholders' equity:		
Common stock and additional paid-in capital, $0.00001 par value: 12,600,000 shares authorized; 5,578,753 and 5,866,161 shares issued and outstanding, respectively	27,416	23,313
Retained earnings	92,284	87,152
Accumulated other comprehensive income	(345)	1,082
Total shareholders' equity	119,355	111,547
Total liabilities and shareholders' equity	$ 290,479	$ 231,839

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In millions, except number of shares which are reflected in thousands)

	Common Stock and Additional Paid-In Capital		Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
	Shares	Amount			
Balances as of September 29, 2012	6,574,458	$ 16,422	$ 101,289	$ 499	$ 118,210
Net income	0	0	37,037	0	37,037
Other comprehensive income/(loss)	0	0	0	(970)	(970)
Dividends and dividend equivalents declared	0	0	(10,676)	0	(10,676)
Repurchase of common stock	(328,837)	0	(22,950)	0	(22,950)
Share-based compensation	0	2,253	0	0	2,253
Common stock issued, net of shares withheld for employee taxes	48,873	(143)	(444)	0	(587)
Tax benefit from equity awards, including transfer pricing adjustments	0	1,232	0	0	1,232
Balances as of September 28, 2013	6,294,494	19,764	104,256	(471)	123,549
Net income	0	0	39,510	0	39,510
Other comprehensive income/(loss)	0	0	0	1,553	1,553
Dividends and dividend equivalents declared	0	0	(11,215)	0	(11,215)
Repurchase of common stock	(488,677)	0	(45,000)	0	(45,000)
Share-based compensation	0	2,863	0	0	2,863
Common stock issued, net of shares withheld for employee taxes	60,344	(49)	(399)	0	(448)
Tax benefit from equity awards, including transfer pricing adjustments	0	735	0	0	735
Balances as of September 27, 2014	5,866,161	23,313	87,152	1,082	111,547
Net income	0	0	53,394	0	53,394
Other comprehensive income/(loss)	0	0	0	(1,427)	(1,427)
Dividends and dividend equivalents declared	0	0	(11,627)	0	(11,627)
Repurchase of common stock	(325,032)	0	(36,026)	0	(36,026)
Share-based compensation	0	3,586	0	0	3,586
Common stock issued, net of shares withheld for employee taxes	37,624	(231)	(609)	0	(840)
Tax benefit from equity awards, including transfer pricing adjustments	0	748	0	0	748
Balances as of September 26, 2015	5,578,753	$ 27,416	$ 92,284	$ (345)	$ 119,355

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

	Years ended		
	September 26, 2015	September 27, 2014	September 28, 2013
Cash and cash equivalents, beginning of the year	$ 13,844	$ 14,259	$ 10,746
Operating activities:			
Net income	53,394	39,510	37,037
Adjustments to reconcile net income to cash generated by operating activities:			
Depreciation and amortization	11,257	7,946	6,757
Share-based compensation expense	3,586	2,863	2,253
Deferred income tax expense	1,382	2,347	1,141
Changes in operating assets and liabilities:			
Accounts receivable, net	611	(4,232)	(2,172)
Inventories	(238)	(76)	(973)
Vendor non-trade receivables	(3,735)	(2,220)	223
Other current and non-current assets	(179)	167	1,080
Accounts payable	5,400	5,938	2,340
Deferred revenue	1,042	1,460	1,459
Other current and non-current liabilities	8,746	6,010	4,521
Cash generated by operating activities	81,266	59,713	53,666
Investing activities:			
Purchases of marketable securities	(166,402)	(217,128)	(148,489)
Proceeds from maturities of marketable securities	14,538	18,810	20,317
Proceeds from sales of marketable securities	107,447	189,301	104,130
Payments made in connection with business acquisitions, net	(343)	(3,765)	(496)
Payments for acquisition of property, plant and equipment	(11,247)	(9,571)	(8,165)
Payments for acquisition of intangible assets	(241)	(242)	(911)
Other	(26)	16	(160)
Cash used in investing activities	(56,274)	(22,579)	(33,774)
Financing activities:			
Proceeds from issuance of common stock	543	730	530
Excess tax benefits from equity awards	749	739	701
Taxes paid related to net share settlement of equity awards	(1,499)	(1,158)	(1,082)
Dividends and dividend equivalents paid	(11,561)	(11,126)	(10,564)
Repurchase of common stock	(35,253)	(45,000)	(22,860)
Proceeds from issuance of term debt, net	27,114	11,960	16,896
Change in commercial paper, net	2,191	6,306	0
Cash used in financing activities	(17,716)	(37,549)	(16,379)
Increase/(decrease) in cash and cash equivalents	7,276	(415)	3,513
Cash and cash equivalents, end of the year	$ 21,120	$ 13,844	$ 14,259
Supplemental cash flow disclosure:			
Cash paid for income taxes, net	$ 13,252	$ 10,026	$ 9,128
Cash paid for interest	$ 514	$ 339	$ 0

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies

Apple Inc. and its wholly-owned subsidiaries (collectively "Apple" or the "Company") designs, manufactures and markets mobile communication and media devices, personal computers and portable digital music players, and sells a variety of related software, services, accessories, networking solutions and third-party digital content and applications. The Company sells its products worldwide through its retail stores, online stores and direct sales force, as well as through third-party cellular network carriers, wholesalers, retailers and value-added resellers. In addition, the Company sells a variety of third-party Apple-compatible products, including application software and various accessories through its online and retail stores. The Company sells to consumers, small and mid-sized businesses and education, enterprise and government customers.

Basis of Presentation and Preparation

The accompanying consolidated financial statements include the accounts of the Company. Intercompany accounts and transactions have been eliminated. In the opinion of the Company's management, the consolidated financial statements reflect all adjustments, which are normal and recurring in nature, necessary for fair financial statement presentation. The preparation of these consolidated financial statements in conformity with U.S. generally accepted accounting principles ("GAAP") requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

The Company's fiscal year is the 52 or 53-week period that ends on the last Saturday of September. The Company's fiscal years 2015, 2014 and 2013 ended on September 26, 2015, September 27, 2014 and September 28, 2013, respectively. An additional week is included in the first fiscal quarter approximately every six years to realign fiscal quarters with calendar quarters. Fiscal years 2015, 2014 and 2013 each spanned 52 weeks. Unless otherwise stated, references to particular years, quarters, months and periods refer to the Company's fiscal years ended in September and the associated quarters, months and periods of those fiscal years.

Revenue Recognition

Net sales consist primarily of revenue from the sale of hardware, software, digital content and applications, accessories, and service and support contracts. 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. Product is considered delivered to the customer once it has been shipped and title, risk of loss and rewards of ownership have been transferred. For most of the Company's product sales, these criteria are met at the time the product is shipped. For online sales to individuals, for some sales to education customers in the U.S., and for certain other sales, the Company defers revenue until the customer receives the product because the Company retains a portion of the risk of loss on these sales during transit. For payment terms in excess of the Company's standard payment terms, revenue is recognized as payments become due unless the Company has positive evidence that the sales price is fixed or determinable, such as a successful history of collection, without concession, on comparable arrangements. The Company recognizes revenue from the sale of hardware products, software bundled with hardware that is essential to the functionality of the hardware and third-party digital content sold on the iTunes Store in accordance with general revenue recognition accounting guidance. The Company recognizes revenue in accordance with industry specific software accounting guidance for the following types of sales transactions: (i) standalone sales of software products, (ii) sales of software upgrades and (iii) sales of software bundled with hardware not essential to the functionality of the hardware.

For the sale of most third-party products, the Company recognizes revenue based on the gross amount billed to customers because the Company establishes its own pricing for such products, retains related inventory risk for physical products, is the primary obligor to the customer and assumes the credit risk for amounts billed to its customers. For third-party applications sold through the App Store and Mac App Store and certain digital content sold through the iTunes Store, the Company does not determine the selling price of the products and is not the primary obligor to the customer. Therefore, the Company accounts for such sales on a net basis by recognizing in net sales only the commission it retains from each sale. The portion of the gross amount billed to customers that is remitted by the Company to third-party app developers and certain digital content owners is not reflected in the Company's Consolidated Statements of Operations.

Table of Contents

The Company records deferred revenue when it receives payments in advance of the delivery of products or the performance of services. This includes amounts that have been deferred for unspecified and specified software upgrade rights and non-software services that are attached to hardware and software products. The Company sells gift cards redeemable at its retail and online stores, and also sells gift cards redeemable on iTunes Store, App Store, Mac App Store and iBooks Store for the purchase of digital content and software. The Company records deferred revenue upon the sale of the card, which is relieved upon redemption of the card by the customer. Revenue from AppleCare service and support contracts is deferred and recognized over the service coverage periods. AppleCare service and support contracts typically include extended phone support, repair services, web-based support resources and diagnostic tools offered under the Company's standard limited warranty.

The Company records reductions to revenue for estimated commitments related to price protection and other customer incentive programs. For transactions involving price protection, the Company recognizes revenue net of the estimated amount to be refunded. For the Company's other customer incentive programs, the estimated cost of these programs is recognized at the later of the date at which the Company has sold the product or the date at which the program is offered. The Company also records reductions to revenue for expected future product returns based on the Company's historical experience. Revenue is recorded net of taxes collected from customers that are remitted to governmental authorities, with the collected taxes recorded as current liabilities until remitted to the relevant government authority.

Revenue Recognition for Arrangements with Multiple Deliverables

For multi-element arrangements that include hardware products containing software essential to the hardware product's functionality, undelivered software elements that relate to the hardware product's essential software, and undelivered non-software services, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price ("TPE") and (iii) best estimate of selling price ("ESP"). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company's best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis. For multi-element arrangements accounted for in accordance with industry specific software accounting guidance, the Company allocates revenue to all deliverables based on the VSOE of each element, and if VSOE does not exist revenue is recognized when elements lacking VSOE are delivered.

For sales of qualifying versions of iPhone, iPad and iPod touch ("iOS devices"), Mac, Apple Watch and Apple TV, the Company has indicated it may from time to time provide future unspecified software upgrades to the device's essential software and/or non-software services free of charge. The Company has identified up to three deliverables regularly included in arrangements involving the sale of these devices. The first deliverable, which represents the substantial portion of the allocated sales price, is the hardware and software essential to the functionality of the hardware device delivered at the time of sale. The second deliverable is the embedded right included with qualifying devices to receive on a when-and-if-available basis, future unspecified software upgrades relating to the product's essential software. The third deliverable is the non-software services to be provided to qualifying devices. The Company allocates revenue between these deliverables using the relative selling price method. Because the Company has neither VSOE nor TPE for these deliverables, the allocation of revenue is based on the Company's ESPs. Revenue allocated to the delivered hardware and the related essential software is recognized at the time of sale provided the other conditions for revenue recognition have been met. Revenue allocated to the embedded unspecified software upgrade rights and the non-software services is deferred and recognized on a straight-line basis over the estimated period the software upgrades and non-software services are expected to be provided. Cost of sales related to delivered hardware and related essential software, including estimated warranty costs, are recognized at the time of sale. Costs incurred to provide non-software services are recognized as cost of sales as incurred, and engineering and sales and marketing costs are recognized as operating expenses as incurred.

The Company's process for determining its ESP for deliverables without VSOE or TPE considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable including, where applicable, prices charged by the Company and market trends in the pricing for similar offerings, product specific business objectives, length of time a particular version of a device has been available, estimated cost to provide the non-software services and the relative ESP of the upgrade rights and non-software services as compared to the total selling price of the product.

Beginning in September 2015, the Company reduced the combined ESPs for iOS devices and Mac between $5 and $10 to reflect the increase in competitive offers for similar products at little to no cost for users, which reduces the amount the Company could reasonably charge for these deliverables on a standalone basis.

Shipping Costs

Amounts billed to customers related to shipping and handling are classified as revenue, and the Company's shipping and handling costs

are classified as cost of sales.

Table of Contents

Warranty Costs

The Company generally provides for the estimated cost of hardware and software warranties at the time the related revenue is recognized. The Company assesses the adequacy of its accrued warranty liabilities and adjusts the amounts as necessary based on actual experience and changes in future estimates.

Software Development Costs

Research and development ("R&D") costs are expensed as incurred. Development costs of computer software to be sold, leased, or otherwise marketed are subject to capitalization beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. In most instances, the Company's products are released soon after technological feasibility has been established and as a result software development costs were expensed as incurred.

Advertising Costs

Advertising costs are expensed as incurred and included in selling, general and administrative expenses. Advertising expense was $1.8 billion, $1.2 billion and $1.1 billion for 2015, 2014 and 2013, respectively.

Share-based Compensation

The Company recognizes expense related to share-based payment transactions in which it receives employee services in exchange for (a) equity instruments of the Company or (b) liabilities that are based on the fair value of the Company's equity instruments or that may be settled by the issuance of such equity instruments. Share-based compensation cost for restricted stock and restricted stock units ("RSUs") is measured based on the closing fair market value of the Company's common stock on the date of grant. The Company recognizes share-based compensation cost over the award's requisite service period on a straight-line basis for time-based RSUs and on a graded basis for RSUs that are contingent on the achievement of performance conditions. The Company recognizes a benefit from share-based compensation in the Consolidated Statements of Shareholders' Equity if an excess tax benefit is realized. In addition, the Company recognizes the indirect effects of share-based compensation on R&D tax credits, foreign tax credits and domestic manufacturing deductions in the Consolidated Statements of Operations. Further information regarding share-based compensation can be found in Note 9, "Benefit Plans."

Income Taxes

The provision for income taxes is computed using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax bases of assets and liabilities and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets and liabilities are expected to be realized or settled. The Company records a valuation allowance to reduce deferred tax assets to the amount that is believed more likely than not to be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such positions are then measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement. See Note 5, "Income Taxes" for additional information.

Earnings Per Share

Basic earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period. Diluted earnings per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the period increased to include the number of additional shares of common stock that would have been outstanding if the potentially dilutive securities had been issued. Potentially dilutive securities include outstanding stock options, shares to be purchased under the Company's employee stock purchase plan, unvested restricted stock and unvested RSUs. The dilutive effect of potentially dilutive securities is reflected in diluted earnings per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities.

Table of Contents

The following table shows the computation of basic and diluted earnings per share for 2015, 2014 and 2013 (net income in millions and shares in thousands):

	2015	2014	2013
Numerator:			
Net income	$ 53,394	$ 39,510	$ 37,037
Denominator:			
Weighted-average shares outstanding	5,753,421	6,085,572	6,477,320
Effect of dilutive securities	39,648	37,091	44,314
Weighted-average diluted shares	5,793,069	6,122,663	6,521,634
Basic earnings per share	$ 9.28	$ 6.49	$ 5.72
Diluted earnings per share	$ 9.22	$ 6.45	$ 5.68

Potentially dilutive securities whose effect would have been antidilutive are excluded from the computation of diluted earnings per share.

Financial Instruments

Cash Equivalents and Marketable Securities

All highly liquid investments with maturities of three months or less at the date of purchase are classified as cash equivalents. The Company's marketable debt and equity securities have been classified and accounted for as available-for-sale. Management determines the appropriate classification of its investments at the time of purchase and reevaluates the classifications at each balance sheet date. The Company classifies its marketable debt securities as either short-term or long-term based on each instrument's underlying contractual maturity date. Marketable debt securities with maturities of 12 months or less are classified as short-term and marketable debt securities with maturities greater than 12 months are classified as long-term. Marketable equity securities, including mutual funds, are classified as either short-term or long-term based on the nature of each security and its availability for use in current operations. The Company's marketable debt and equity securities are carried at fair value, with unrealized gains and losses, net of taxes, reported as a component of accumulated other comprehensive income ("AOCI") in shareholders' equity, with the exception of unrealized losses believed to be other-than-temporary which are reported in earnings in the current period. The cost of securities sold is based upon the specific identification method.

Derivative Financial Instruments

The Company accounts for its derivative instruments as either assets or liabilities and carries them at fair value.

For derivative instruments that hedge the exposure to variability in expected future cash flows that are designated as cash flow hedges, the effective portion of the gain or loss on the derivative instrument is reported as a component of AOCI in shareholders' equity and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized in earnings in the current period. To receive hedge accounting treatment, cash flow hedges must be highly effective in offsetting changes to expected future cash flows on hedged transactions. For options designated as cash flow hedges, changes in the time value are excluded from the assessment of hedge effectiveness and are recognized in earnings.

For derivative instruments that hedge the exposure to changes in the fair value of an asset or a liability and that are designated as fair value hedges, both the net gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item are recognized in earnings in the current period.

For derivative instruments and foreign currency debt that hedge the exposure to changes in foreign currency exchange rates used for translation of the net investment in a foreign operation and that are designated as a net investment hedge, the net gain or loss on the effective portion of the derivative instrument is reported in the same manner as a foreign currency translation adjustment. For forward exchange contracts designated as net investment hedges, the Company excludes changes in fair value relating to changes in the forward carry component from its definition of effectiveness. Accordingly, any gains or losses related to this forward carry component are recognized in earnings in the current period.

Derivatives that do not qualify as hedges are adjusted to fair value through earnings in the current period.

Table of Contents

Allowance for Doubtful Accounts

The Company records its allowance for doubtful accounts based upon its assessment of various factors, including historical experience, age of the accounts receivable balances, credit quality of the Company's customers, current economic conditions and other factors that may affect the customers' ability to pay.

Inventories

Inventories are stated at the lower of cost, computed using the first-in, first-out method and net realizable value. Any adjustments to reduce the cost of inventories to their net realizable value are recognized in earnings in the current period. As of September 26, 2015 and September 27, 2014, the Company's inventories consist primarily of finished goods.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed by use of the straight-line method over the estimated useful lives of the assets, which for buildings is the lesser of 30 years or the remaining life of the underlying building; between one to five years for machinery and equipment, including product tooling and manufacturing process equipment; and the shorter of lease terms or ten years for leasehold improvements. The Company capitalizes eligible costs to acquire or develop internal-use software that are incurred subsequent to the preliminary project stage. Capitalized costs related to internal-use software are amortized using the straight-line method over the estimated useful lives of the assets, which range from three to five years. Depreciation and amortization expense on property and equipment was $9.2 billion, $6.9 billion and $5.8 billion during 2015, 2014 and 2013, respectively.

Long-Lived Assets Including Goodwill and Other Acquired Intangible Assets

The Company reviews property, plant and equipment, inventory component prepayments and certain identifiable intangibles, excluding goodwill, for impairment. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of these assets is measured by comparison of their carrying amounts to future undiscounted cash flows the assets are expected to generate. If property, plant and equipment, inventory component prepayments and certain identifiable intangibles are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the assets exceeds its fair value.

The Company does not amortize goodwill and intangible assets with indefinite useful lives, rather such assets are required to be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired. The Company performs its goodwill and intangible asset impairment tests in the fourth quarter of each year. The Company did not recognize any impairment charges related to goodwill or indefinite lived intangible assets during 2015, 2014 and 2013. The Company established reporting units based on its current reporting structure. For purposes of testing goodwill for impairment, goodwill has been allocated to these reporting units to the extent it relates to each reporting unit. In 2015 and 2014, the Company's goodwill was primarily allocated to the Americas and Europe reporting units.

The Company amortizes its intangible assets with definite useful lives over their estimated useful lives and reviews these assets for impairment. The Company typically amortizes its acquired intangible assets with definite useful lives over periods from three to seven years.

Fair Value Measurements

The Company applies fair value accounting for all financial assets and liabilities and non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are required to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as risks inherent in valuation techniques, transfer restrictions and credit risk. Fair value is estimated by applying the following hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management's estimate of assumptions that market participants would use in pricing the asset or liability.

Table of Contents

The Company's valuation techniques used to measure the fair value of money market funds and certain marketable equity securities were derived from quoted prices in active markets for identical assets or liabilities. The valuation techniques used to measure the fair value of the Company's debt instruments and all other financial instruments, all of which have counterparties with high credit ratings, were valued based on quoted market prices or model driven valuations using significant inputs derived from or corroborated by observable market data.

In accordance with the fair value accounting requirements, companies may choose to measure eligible financial instruments and certain other items at fair value. The Company has not elected the fair value option for any eligible financial instruments.

Foreign Currency Translation and Remeasurement

The Company translates the assets and liabilities of its non-U.S. dollar functional currency subsidiaries into U.S. dollars using exchange rates in effect at the end of each period. Revenue and expenses for these subsidiaries are translated using rates that approximate those in effect during the period. Gains and losses from these translations are recognized in foreign currency translation included in AOCI in shareholders' equity. The Company's subsidiaries that use the U.S. dollar as their functional currency remeasure monetary assets and liabilities at exchange rates in effect at the end of each period, and inventories, property and nonmonetary assets and liabilities at historical rates.

Note 2 – Financial Instruments

Cash, Cash Equivalents and Marketable Securities

The following tables show the Company's cash and available-for-sale securities' adjusted cost, gross unrealized gains, gross unrealized losses and fair value by significant investment category recorded as cash and cash equivalents or short- or long-term marketable securities as of September 26, 2015 and September 27, 2014 (in millions):

	2015						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	$ 11,389	$ 0	$ 0	$ 11,389	$ 11,389	$ 0	$ 0
Level 1:							
Money market funds	1,798	0	0	1,798	1,798	0	0
Mutual funds	1,772	0	(144)	1,628	0	1,628	0
Subtotal	3,570	0	(144)	3,426	1,798	1,628	0
Level 2:							
U.S. Treasury securities	34,902	181	(1)	35,082	0	3,498	31,584
U.S. agency securities	5,864	14	0	5,878	841	767	4,270
Non-U.S. government securities	6,356	45	(167)	6,234	43	135	6,056
Certificates of deposit and time deposits	4,347	0	0	4,347	2,065	1,405	877
Commercial paper	6,016	0	0	6,016	4,981	1,035	0
Corporate securities	116,908	242	(985)	116,165	3	11,948	104,214
Municipal securities	947	5	0	952	0	48	904
Mortgage- and asset-backed securities	16,121	87	(31)	16,177	0	17	16,160
Subtotal	191,461	574	(1,184)	190,851	7,933	18,853	164,065
Total	$ 206,420	$ 574	$ (1,328)	$ 205,666	$ 21,120	$ 20,481	$ 164,065

Table of Contents

	2014						
	Adjusted Cost	Unrealized Gains	Unrealized Losses	Fair Value	Cash and Cash Equivalents	Short-Term Marketable Securities	Long-Term Marketable Securities
Cash	$ 10,232	$ 0	$ 0	$ 10,232	$ 10,232	$ 0	$ 0
Level 1:							
Money market funds	1,546	0	0	1,546	1,546	0	0
Mutual funds	2,531	1	(132)	2,400	0	2,400	0
Subtotal	4,077	1	(132)	3,946	1,546	2,400	0
Level 2:							
U.S. Treasury securities	23,140	15	(9)	23,146	12	607	22,527
U.S. agency securities	7,373	3	(11)	7,365	652	157	6,556
Non-U.S. government securities	6,925	69	(69)	6,925	0	204	6,721
Certificates of deposit and time deposits	3,832	0	0	3,832	1,230	1,233	1,369
Commercial paper	475	0	0	475	166	309	0
Corporate securities	85,431	296	(241)	85,486	6	6,298	79,182
Municipal securities	940	8	0	948	0	0	948
Mortgage- and asset-backed securities	12,907	26	(49)	12,884	0	25	12,859
Subtotal	141,023	417	(379)	141,061	2,066	8,833	130,162
Total	$ 155,332	$ 418	$ (511)	$ 155,239	$ 13,844	$ 11,233	$ 130,162

The Company may sell certain of its marketable securities prior to their stated maturities for strategic reasons including, but not limited to, anticipation of credit deterioration and duration management. The maturities of the Company's long-term marketable securities generally range from one to five years.

As of September 26, 2015, the Company considers the declines in market value of its marketable securities investment portfolio to be temporary in nature and does not consider any of its investments other-than-temporarily impaired. The Company typically invests in highly-rated securities, and its investment policy generally limits the amount of credit exposure to any one issuer. The policy generally requires investments to be investment grade, with the primary objective of minimizing the potential risk of principal loss. Fair values were determined for each individual security in the investment portfolio. When evaluating an investment for other-than-temporary impairment the Company reviews factors such as the length of time and extent to which fair value has been below its cost basis, the financial condition of the issuer and any changes thereto, changes in market interest rates and the Company's intent to sell, or whether it is more likely than not it will be required to sell the investment before recovery of the investment's cost basis.

Derivative Financial Instruments

The Company may use derivatives to partially offset its business exposure to foreign currency and interest rate risk on expected future cash flows, on net investments in certain foreign subsidiaries and on certain existing assets and liabilities. However, the Company may choose not to hedge certain exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange or interest rates.

To help protect gross margins from fluctuations in foreign currency exchange rates, certain of the Company's subsidiaries whose functional currency is the U.S. dollar may hedge a portion of forecasted foreign currency revenue, and subsidiaries whose functional currency is not the U.S. dollar and who sell in local currencies may hedge a portion of forecasted inventory purchases not denominated in the subsidiaries' functional currencies. The Company may enter into forward contracts, option contracts or other instruments to manage this risk and may designate these instruments as cash flow hedges. The Company typically hedges portions of its forecasted foreign currency exposure associated with revenue and inventory purchases, typically for up to 12 months.

To help protect the net investment in a foreign operation from adverse changes in foreign currency exchange rates, the Company may enter into foreign currency forward and option contracts to offset the changes in the carrying amounts of these investments due to fluctuations in foreign currency exchange rates. In addition, the Company may use non-derivative financial instruments, such as its foreign currency-denominated debt, as economic hedges of its net investments in certain foreign subsidiaries. In both of these cases, the Company designates these instruments as net investment hedges.

Table of Contents

The Company may also enter into non-designated foreign currency contracts to partially offset the foreign currency exchange gains and losses generated by the re-measurement of certain assets and liabilities denominated in non-functional currencies.

The Company may enter into interest rate swaps, options, or other instruments to manage interest rate risk. These instruments may offset a portion of changes in income or expense, or changes in fair value of the Company's term debt or investments. The Company designates these instruments as either cash flow or fair value hedges. The Company's hedged interest rate transactions as of September 26, 2015 are expected to be recognized within 10 years.

Cash Flow Hedges

The effective portions of cash flow hedges are recorded in AOCI until the hedged item is recognized in earnings. Deferred gains and losses associated with cash flow hedges of foreign currency revenue are recognized as a component of net sales in the same period as the related revenue is recognized, and deferred gains and losses related to cash flow hedges of inventory purchases are recognized as a component of cost of sales in the same period as the related costs are recognized. Deferred gains and losses associated with cash flow hedges of interest income or expense are recognized in other income/(expense), net in the same period as the related income or expense is recognized. The ineffective portions and amounts excluded from the effectiveness testing of cash flow hedges are recognized in other income/(expense), net.

Derivative instruments designated as cash flow hedges must be de-designated as hedges when it is probable the forecasted hedged transaction will not occur in the initially identified time period or within a subsequent two-month time period. Deferred gains and losses in AOCI associated with such derivative instruments are reclassified immediately into other income/(expense), net. Any subsequent changes in fair value of such derivative instruments are reflected in other income/(expense), net unless they are re-designated as hedges of other transactions.

Net Investment Hedges

The effective portions of net investment hedges are recorded in other comprehensive income ("OCI") as a part of the cumulative translation adjustment. The ineffective portions and amounts excluded from the effectiveness testing of net investment hedges are recognized in other income/(expense), net.

Fair Value Hedges

Gains and losses related to changes in fair value hedges are recognized in earnings along with a corresponding loss or gain related to the change in value of the underlying hedged item.

Non-Designated Derivatives

Derivatives that are not designated as hedging instruments are adjusted to fair value through earnings in the financial statement line item to which the derivative relates.

The Company records all derivatives in the Consolidated Balance Sheets at fair value. The Company's accounting treatment for these derivative instruments is based on its hedge designation. The following tables show the Company's derivative instruments at gross fair value as of September 26, 2015 and September 27, 2014 (in millions):

	2015		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets (1):			
Foreign exchange contracts	$ 1,442	$ 109	$ 1,551
Interest rate contracts	$ 394	$ 0	$ 394
Derivative liabilities (2):			
Foreign exchange contracts	$ 905	$ 94	$ 999
Interest rate contracts	$ 13	$ 0	$ 13

Table of Contents

	2014		
	Fair Value of Derivatives Designated as Hedge Instruments	Fair Value of Derivatives Not Designated as Hedge Instruments	Total Fair Value
Derivative assets (1):			
Foreign exchange contracts	$ 1,332	$ 222	$ 1,554
Interest rate contracts	$ 81	$ 0	$ 81
Derivative liabilities (2):			
Foreign exchange contracts	$ 41	$ 40	$ 81

(1) The fair value of derivative assets is measured using Level 2 fair value inputs and is recorded as other current assets in the Consolidated Balance Sheets.

(2) The fair value of derivative liabilities is measured using Level 2 fair value inputs and is recorded as accrued expenses in the Consolidated Balance Sheets.

The following table shows the pre-tax gains and losses of the Company's derivative and non-derivative instruments designated as cash flow, net investment and fair value hedges on OCI and the Consolidated Statements of Operations for 2015, 2014 and 2013 (in millions):

	2015	2014	2013
Gains/(Losses) recognized in OCI – effective portion:			
Cash flow hedges:			
Foreign exchange contracts	$ 3,592	$ 1,750	$ 891
Interest rate contracts	(111)	(15)	12
Total	$ 3,481	$ 1,735	$ 903
Net investment hedges:			
Foreign exchange contracts	$ 167	$ 53	$ 143
Foreign currency debt	(71)	0	0
Total	$ 96	$ 53	$ 143
Gains/(Losses) reclassified from AOCI into net income – effective portion:			
Cash flow hedges:			
Foreign exchange contracts	$ 4,092	$ (154)	$ 676
Interest rate contracts	(17)	(16)	(6)
Total	$ 4,075	$ (170)	$ 670
Gains/(Losses) on derivative instruments:			
Fair value hedges:			
Interest rate contracts	$ 337	$ 39	$ 0
Gains/(Losses) related to hedged items:			
Fair value hedges:			
Interest rate contracts	$ (337)	$ (39)	$ 0

The following table shows the notional amounts of the Company's outstanding derivative instruments and credit risk amounts associated with outstanding or unsettled derivative instruments as of September 26, 2015 and September 27, 2014 (in millions):

	2015		2014	
	Notional Amount	Credit Risk Amount	Notional Amount	Credit Risk Amount
Instruments designated as accounting hedges:				
Foreign exchange contracts	$ 70,054	$ 1,385	$ 42,945	$ 1,333
Interest rate contracts	$ 18,750	$ 394	$ 12,000	$ 89
Instruments not designated as accounting hedges:				
Foreign exchange contracts	$ 49,190	$ 109	$ 38,510	$ 222

Table of Contents

The notional amounts for outstanding derivative instruments provide one measure of the transaction volume outstanding and do not represent the amount of the Company's exposure to credit or market loss. The credit risk amounts represent the Company's gross exposure to potential accounting loss on derivative instruments that are outstanding or unsettled if all counterparties failed to perform according to the terms of the contract, based on then-current currency or interest rates at each respective date. The Company's exposure to credit loss and market risk will vary over time as currency and interest rates change. Although the table above reflects the notional and credit risk amounts of the Company's derivative instruments, it does not reflect the gains or losses associated with the exposures and transactions that the instruments are intended to hedge. The amounts ultimately realized upon settlement of these financial instruments, together with the gains and losses on the underlying exposures, will depend on actual market conditions during the remaining life of the instruments.

The Company generally enters into master netting arrangements, which are designed to reduce credit risk by permitting net settlement of transactions with the same counterparty. To further limit credit risk, the Company generally enters into collateral security arrangements that provide for collateral to be received or posted when the net fair value of certain financial instruments fluctuates from contractually established thresholds. The Company presents its derivative assets and derivative liabilities at their gross fair values in its Consolidated Balance Sheets. The net cash collateral received by the Company related to derivative instruments under its collateral security arrangements was $1.0 billion as of September 26, 2015 and $2.1 billion as of September 27, 2014.

Under master netting arrangements with the respective counterparties to the Company's derivative contracts, the Company is allowed to net settle transactions with a single net amount payable by one party to the other. As of September 26, 2015 and September 27, 2014, the potential effects of these rights of set-off associated with the Company's derivative contracts, including the effects of collateral, would be a reduction to both derivative assets and derivative liabilities of $2.2 billion and $1.6 billion, respectively, resulting in net derivative liabilities of $78 million and $549 million, respectively.

Accounts Receivable

Trade Receivables

The Company has considerable trade receivables outstanding with its third-party cellular network carriers, wholesalers, retailers, value-added resellers, small and mid-sized businesses and education, enterprise and government customers. The Company generally does not require collateral from its customers; however, the Company will require collateral in certain instances to limit credit risk. In addition, when possible, the Company attempts to limit credit risk on trade receivables with credit insurance for certain customers or by requiring third-party financing, loans or leases to support credit exposure. These credit-financing arrangements are directly between the third-party financing company and the end customer. As such, the Company generally does not assume any recourse or credit risk sharing related to any of these arrangements.

As of September 26, 2015, the Company had one customer that represented 10% or more of total trade receivables, which accounted for 12%. As of September 27, 2014, the Company had two customers that represented 10% or more of total trade receivables, one of which accounted for 16% and the other 13%. The Company's cellular network carriers accounted for 71% and 72% of trade receivables as of September 26, 2015 and September 27, 2014, respectively.

Vendor Non-Trade Receivables

The Company has non-trade receivables from certain of its manufacturing vendors resulting from the sale of components to these vendors who manufacture sub-assemblies or assemble final products for the Company. The Company purchases these components directly from suppliers. Vendor non-trade receivables from three of the Company's vendors accounted for 38%, 18% and 14% of total vendor non-trade receivables as of September 26, 2015 and three of the Company's vendors accounted for 51%, 16% and 14% of total vendor non-trade receivables as of September 27, 2014.

Note 3 – Consolidated Financial Statement Details

The following tables show the Company's consolidated financial statement details as of September 26, 2015 and September 27, 2014 (in millions):

Property, Plant and Equipment, Net

	2015	2014
Land and buildings	$ 6,956	$ 4,863
Machinery, equipment and internal-use software	37,038	29,639
Leasehold improvements	5,263	4,513
Gross property, plant and equipment	49,257	39,015

COEX
8.187

Accumulated depreciation and amortization	(26,786)	(18,391)
Total property, plant and equipment, net	$ 22,471	$ 20,624

Table of Contents

Other Non-Current Liabilities

	2015	2014
Deferred tax liabilities	$ 24,062	$ 20,259
Other non-current liabilities	9,365	4,567
Total other non-current liabilities	$ 33,427	$ 24,826

Other Income/(Expense), Net

The following table shows the detail of other income/(expense), net for 2015, 2014 and 2013 (in millions):

	2015	2014	2013
Interest and dividend income	$ 2,921	$ 1,795	$ 1,616
Interest expense	(733)	(384)	(136)
Other expense, net	(903)	(431)	(324)
Total other income/(expense), net	$ 1,285	$ 980	$ 1,156

Note 4 – Goodwill and Other Intangible Assets

On July 31, 2014, the Company completed the acquisitions of Beats Music, LLC, which offers a subscription streaming music service, and Beats Electronics, LLC, which makes Beats® headphones, speakers and audio software (collectively, "Beats"). The total purchase price consideration for these acquisitions was $2.6 billion, which consisted primarily of cash, of which $2.2 billion was allocated to goodwill, $636 million to acquired intangible assets and $258 million to net liabilities assumed. Concurrent with the close of the acquisitions, the Company repaid $295 million of existing Beats outstanding debt to third-party creditors. In conjunction with the Beats acquisitions, the Company issued approximately 5.1 million shares of its common stock to certain former equity holders of Beats. The restricted stock was valued at approximately $485 million based on the Company's common stock on the acquisition date. The majority of these shares, valued at approximately $417 million, will vest over time based on continued employment with Apple.

The Company also completed various other business acquisitions during 2014 for an aggregate cash consideration, net of cash acquired, of $957 million, of which $828 million was allocated to goodwill, $257 million to acquired intangible assets and $128 million to net liabilities assumed.

The Company's acquired intangible assets with definite useful lives primarily consist of patents and licenses and are amortized over periods typically from three to seven years. The following table summarizes the components of gross and net intangible asset balances as of September 26, 2015 and September 27, 2014 (in millions):

	2015			2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived and amortizable acquired intangible assets	$ 8,125	$ (4,332)	$ 3,793	$ 7,127	$ (3,085)	$ 4,042
Indefinite-lived and non-amortizable acquired intangible assets	100	0	100	100	0	100
Total acquired intangible assets	$ 8,225	$ (4,332)	$ 3,893	$ 7,227	$ (3,085)	$ 4,142

Amortization expense related to acquired intangible assets was $1.3 billion, $1.1 billion and $960 million in 2015, 2014 and 2013, respectively. As of September 26, 2015, the remaining weighted-average amortization period for acquired intangible assets is 3.6 years. The expected annual amortization expense related to acquired intangible assets as of September 26, 2015, is as follows (in millions):

2016	$ 1,288
2017	1,033
2018	786
2019	342
2020	166
Thereafter	178

COEX
8.187

Total	$ 3,793

Table of Contents

Note 5 – Income Taxes

The provision for income taxes for 2015, 2014 and 2013, consisted of the following (in millions):

	2015	2014	2013
Federal:			
Current	$ 11,730	$ 8,624	$ 9,334
Deferred	3,408	3,183	1,878
	15,138	11,807	11,212
State:			
Current	1,265	855	1,084
Deferred	(220)	(178)	(311)
	1,045	677	773
Foreign:			
Current	4,744	2,147	1,559
Deferred	(1,806)	(658)	(426)
	2,938	1,489	1,133
Provision for income taxes	$ 19,121	$ 13,973	$ 13,118

The foreign provision for income taxes is based on foreign pre-tax earnings of $47.6 billion, $33.6 billion and $30.5 billion in 2015, 2014 and 2013, respectively. The Company's consolidated financial statements provide for any related tax liability on undistributed earnings that the Company does not intend to be indefinitely reinvested outside the U.S. Substantially all of the Company's undistributed international earnings intended to be indefinitely reinvested in operations outside the U.S. were generated by subsidiaries organized in Ireland, which has a statutory tax rate of 12.5%. As of September 26, 2015, U.S. income taxes have not been provided on a cumulative total of $91.5 billion of such earnings. The amount of unrecognized deferred tax liability related to these temporary differences is estimated to be $30.0 billion.

As of September 26, 2015 and September 27, 2014, $186.9 billion and $137.1 billion, respectively, of the Company's cash, cash equivalents and marketable securities were held by foreign subsidiaries and are generally based in U.S. dollar-denominated holdings. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S.

A reconciliation of the provision for income taxes, with the amount computed by applying the statutory federal income tax rate (35% in 2015, 2014 and 2013) to income before provision for income taxes for 2015, 2014 and 2013, is as follows (dollars in millions):

	2015	2014	2013
Computed expected tax	$ 25,380	$ 18,719	$ 17,554
State taxes, net of federal effect	680	469	508
Indefinitely invested earnings of foreign subsidiaries	(6,470)	(4,744)	(4,614)
Domestic production activities deduction	(426)	(495)	(308)
Research and development credit, net	(171)	(88)	(287)
Other	128	112	265
Provision for income taxes	$ 19,121	$ 13,973	$ 13,118
Effective tax rate	26.4%	26.1%	26.2%

The Company's income taxes payable have been reduced by the tax benefits from employee stock plan awards. For stock options, the Company receives an income tax benefit calculated as the tax effect of the difference between the fair market value of the stock issued at the time of the exercise and the exercise price. For RSUs, the Company receives an income tax benefit upon the award's vesting equal to the tax effect of the underlying stock's fair market value. The Company had net excess tax benefits from equity awards of $748 million, $706 million and $643 million in 2015, 2014 and 2013, respectively, which were reflected as increases to common stock.

Table of Contents

As of September 26, 2015 and September 27, 2014, the significant components of the Company's deferred tax assets and liabilities were (in millions):

	2015	2014
Deferred tax assets:		
Accrued liabilities and other reserves	$ 4,205	$ 3,326
Basis of capital assets and investments	2,238	898
Deferred revenue	1,941	1,787
Deferred cost sharing	667	0
Share-based compensation	575	454
Unrealized losses	564	130
Other	721	227
Total deferred tax assets, net of valuation allowance of $0	10,911	6,822
Deferred tax liabilities:		
Unremitted earnings of foreign subsidiaries	26,868	21,544
Other	303	398
Total deferred tax liabilities	27,171	21,942
Net deferred tax liabilities	$ (16,260)	$ (15,120)

Deferred tax assets and liabilities reflect the effects of tax losses, credits and the future income tax effects of temporary differences between the consolidated financial statement carrying amounts of existing assets and liabilities and their respective tax bases and are measured using enacted tax rates that apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Uncertain Tax Positions

Tax positions are evaluated in a two-step process. The Company first determines whether it is more likely than not that a tax position will be sustained upon examination. If a tax position meets the more-likely-than-not recognition threshold it is then measured to determine the amount of benefit to recognize in the financial statements. The tax position is measured as the largest amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Company classifies gross interest and penalties and unrecognized tax benefits that are not expected to result in payment or receipt of cash within one year as non-current liabilities in the Consolidated Balance Sheets.

As of September 26, 2015, the total amount of gross unrecognized tax benefits was $6.9 billion, of which $2.5 billion, if recognized, would affect the Company's effective tax rate. As of September 27, 2014, the total amount of gross unrecognized tax benefits was $4.0 billion, of which $1.4 billion, if recognized, would affect the Company's effective tax rate.

The aggregate changes in the balance of gross unrecognized tax benefits, which excludes interest and penalties, for 2015, 2014 and 2013, is as follows (in millions):

	2015	2014	2013
Beginning Balance	$ 4,033	$ 2,714	$ 2,062
Increases related to tax positions taken during a prior year	2,056	1,295	745
Decreases related to tax positions taken during a prior year	(345)	(280)	(118)
Increases related to tax positions taken during the current year	1,278	882	626
Decreases related to settlements with taxing authorities	(109)	(574)	(592)
Decreases related to expiration of statute of limitations	(13)	(4)	(9)
Ending Balance	$ 6,900	$ 4,033	$ 2,714

The Company includes interest and penalties related to unrecognized tax benefits within the provision for income taxes. As of September 26, 2015 and September 27, 2014, the total amount of gross interest and penalties accrued was $1.3 billion and $630 million, respectively, which is classified as non-current liabilities in the Consolidated Balance Sheets. In connection with tax matters, the Company recognized interest and penalty expense in 2015, 2014 and 2013 of $709 million, $40 million and $189 million, respectively.

Table of Contents

The Company is subject to taxation and files income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions. The U.S. Internal Revenue Service (the "IRS") is currently examining the years 2010 through 2012, and all years prior to 2010 are closed. In addition, the Company is subject to audits by state, local and foreign tax authorities. In major states and major foreign jurisdictions, the years subsequent to 2003 generally remain open and could be subject to examination by the taxing authorities.

Management believes that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in the Company's tax audits are resolved in a manner not consistent with management's expectations, the Company could be required to adjust its provision for income taxes in the period such resolution occurs. Although timing of the resolution and/or closure of audits is not certain, the Company does not believe it is reasonably possible that its unrecognized tax benefits would materially change in the next 12 months.

On June 11, 2014, the European Commission issued an opening decision initiating a formal investigation against Ireland for alleged state aid to the Company. The opening decision concerns the allocation of profits for taxation purposes of the Irish branches of two subsidiaries of the Company. The Company believes the European Commission's assertions are without merit. If the European Commission were to conclude against Ireland, the European Commission could require Ireland to recover from the Company past taxes covering a period of up to 10 years reflective of the disallowed state aid. While such amount could be material, as of September 26, 2015 the Company is unable to estimate the impact.

Note 6 – Debt

Commercial Paper

In 2014, the Board of Directors authorized the Company to issue unsecured short-term promissory notes ("Commercial Paper") pursuant to a commercial paper program. The Company intends to use net proceeds from the commercial paper program for general corporate purposes, including dividends and share repurchases. As of September 26, 2015 and September 27, 2014, the Company had $8.5 billion and $6.3 billion of Commercial Paper outstanding, respectively, with a weighted-average interest rate of 0.14% and 0.12%, respectively, and maturities generally less than nine months.

The following table provides a summary of cash flows associated with the issuance and maturities of Commercial Paper for 2015 and 2014 (in millions):

	2015	2014
Maturities less than 90 days:		
Proceeds from (repayments of) commercial paper, net	$ 5,293	$ 1,865
Maturities greater than 90 days:		
Proceeds from commercial paper	3,851	4,771
Repayments of commercial paper	(6,953)	(330)
Maturities greater than 90 days, net	(3,102)	4,441
Total change in commercial paper, net	$ 2,191	$ 6,306

Long-Term Debt

As of September 26, 2015, the Company had outstanding floating- and fixed-rate notes with varying maturities for an aggregate principal amount of $55.7 billion (collectively the "Notes"). The Notes are senior unsecured obligations, and interest is payable in arrears, quarterly for the U.S. dollar-denominated and Australian dollar-denominated floating-rate notes, semi-annually for the U.S. dollar-denominated, Australian dollar-denominated, British pound-denominated and Japanese yen-denominated fixed-rate notes and annually for the euro-denominated and Swiss franc-denominated fixed-rate notes.

Table of Contents

The following table provides a summary of the Company's term debt as of September 26, 2015 and September 27, 2014:

		2015		2014	
	Maturities	Amount (in millions)	Effective Interest Rate	Amount (in millions)	Effective Interest Rate
2013 debt issuance of $17.0 billion:					
Floating-rate notes	2016 – 2018	$ 3,000	0.51% – 1.10%	$ 3,000	0.51% – 1.10%
Fixed-rate 0.45% – 3.85% notes	2016 – 2043	14,000	0.51% – 3.91%	14,000	0.51% – 3.91%
2014 debt issuance of $12.0 billion:					
Floating-rate notes	2017 – 2019	2,000	0.37% – 0.60%	2,000	0.31% – 0.54%
Fixed-rate 1.05% – 4.45% notes	2017 – 2044	10,000	0.37% – 4.48%	10,000	0.30% – 4.48%
First quarter 2015 euro-denominated debt issuance of €2.8 billion:					
Fixed-rate 1.000% notes	2022	1,558	2.94%	0	0
Fixed-rate 1.625% notes	2026	1,558	3.45%	0	0
Second quarter 2015 debt issuance of $6.5 billion:					
Floating-rate notes	2020	500	0.56%	0	0
Fixed-rate 1.55% notes	2020	1,250	0.56%	0	0
Fixed-rate 2.15% notes	2022	1,250	0.87%	0	0
Fixed-rate 2.50% notes	2025	1,500	2.60%	0	0
Fixed-rate 3.45% notes	2045	2,000	3.58%	0	0
Second quarter 2015 Swiss franc-denominated debt issuance of SFr1.25 billion:					
Fixed-rate 0.375% notes	2024	895	0.28%	0	0
Fixed-rate 0.750% notes	2030	384	0.74%	0	0
Third quarter 2015 debt issuance of $8.0 billion:					
Floating-rate notes	2017	250	0.36%	0	0
Floating-rate notes	2020	500	0.61%	0	0
Fixed-rate 0.900% notes	2017	750	0.35%	0	0
Fixed-rate 2.000% notes	2020	1,250	0.61%	0	0
Fixed-rate 2.700% notes	2022	1,250	0.99%	0	0
Fixed-rate 3.200% notes	2025	2,000	1.22%	0	0
Fixed-rate 4.375% notes	2045	2,000	4.40%	0	0
Third quarter 2015 Japanese yen-denominated debt issuance of ¥250.0 billion:					
Fixed-rate 0.35% notes	2020	2,081	0.35%	0	0
Fourth quarter 2015 British pound-denominated debt issuance of £1.25 billion:					
Fixed-rate 3.05% notes	2029	1,148	3.79%	0	0
Fixed-rate 3.60% notes	2042	766	4.51%	0	0
Fourth quarter 2015 Australian dollar-denominated debt issuance of A$2.25 billion:					
Floating-rate notes	2019	493	1.87%	0	0
Fixed-rate 2.85% notes	2019	282	1.89%	0	0
Fixed-rate 3.70% notes	2022	810	2.79%	0	0
Fourth quarter 2015 euro-denominated debt issuance of €2.0 billion:					
Fixed-rate 1.375% notes	2024	1,113	3.30%	0	0
Fixed-rate 2.000% notes	2027	1,113	3.85%	0	0
Total term debt		55,701		29,000	
Unamortized discount		(114)		(52)	
Hedge accounting fair value adjustments		376		39	
Less: Current portion of long-term debt		(2,500)		0	
Total long-term debt		$ 53,463		$ 28,987	

To manage foreign currency risk associated with the euro-denominated notes issued in the first quarter of 2015 and the British pound-denominated, Australian dollar-denominated and euro-denominated notes issued in the fourth quarter of 2015, the Company entered into currency swaps with an aggregate notional amount of $3.5 billion, $1.9 billion, $1.6 billion and $2.2 billion, respectively, which effectively converted these notes to U.S. dollar-denominated notes.

Table of Contents

To manage interest rate risk on the U.S. dollar-denominated fixed-rate notes issued in the second quarter of 2015 and maturing in 2020 and 2022, the Company entered into interest rate swaps with an aggregate notional amount of $2.5 billion. To manage interest rate risk on the U.S. dollar-denominated fixed-rate notes issued in the third quarter of 2015 and maturing in 2017, 2020, 2022 and 2025, the Company entered into interest rate swaps with an aggregate notional amount of $4.3 billion. These interest rate swaps effectively converted the fixed interest rates on the U.S. dollar-denominated notes to a floating interest rate.

As of September 26, 2015, ¥250.0 billion of the Japanese yen-denominated notes was designated as a hedge of the foreign currency exposure of its net investment in a foreign operation. The foreign currency transaction gain or loss on the Japanese yen-denominated debt designated as a hedge is recorded in OCI as a part of the cumulative translation adjustment. As of September 26, 2015, the carrying value of the debt designated as a net investment hedge was $2.1 billion.

For further discussion regarding the Company's use of derivative instruments see the Derivative Financial Instruments section of Note 2, "Financial Instruments."

The effective interest rates for the Notes include the interest on the Notes, amortization of the discount and, if applicable, adjustments related to hedging. The Company recognized $722 million, $381 million and $136 million of interest expense on its term debt for 2015, 2014 and 2013, respectively.

The future principal payments for the Company's Notes as of September 26, 2015 are as follows (in millions):

2016	$ 2,500
2017	3,500
2018	6,000
2019	3,775
2020	5,581
Thereafter	34,345
Total term debt	$ 55,701

As of September 26, 2015 and September 27, 2014, the fair value of the Company's Notes, based on Level 2 inputs, was $54.9 billion and $28.5 billion, respectively.

Note 7 – Shareholders' Equity

Dividends

The Company declared and paid cash dividends per share during the periods presented as follows:

	Dividends Per Share	Amount (in millions)
2015:		
Fourth quarter	$ 0.52	$ 2,950
Third quarter	0.52	2,997
Second quarter	0.47	2,734
First quarter	0.47	2,750
Total cash dividends declared and paid	$ 1.98	$ 11,431
2014:		
Fourth quarter	$ 0.47	$ 2,807
Third quarter	0.47	2,830
Second quarter	0.44	2,655
First quarter	0.44	2,739
Total cash dividends declared and paid	$ 1.82	$ 11,031

Future dividends are subject to declaration by the Board of Directors.

Table of Contents

Share Repurchase Program

In the third quarter of 2015, the Company's Board of Directors increased the share repurchase authorization to $140 billion of the Company's common stock, of which $104 billion had been utilized as of September 26, 2015. The Company's share repurchase program does not obligate it to acquire any specific number of shares. Under the program, shares may be repurchased in privately negotiated and/or open market transactions, including under plans complying with Rule 10b5-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act").

The Company has entered, and in the future may enter, into accelerated share repurchase arrangements ("ASRs") with financial institutions. In exchange for up-front payments, the financial institutions deliver shares of the Company's common stock during the purchase periods of each ASR. The total number of shares ultimately delivered, and therefore the average repurchase price paid per share, is determined at the end of the applicable purchase period of each ASR based on the volume weighted-average price of the Company's common stock during that period. The shares received are retired in the periods they are delivered, and the up-front payments are accounted for as a reduction to shareholders' equity in the Company's Consolidated Balance Sheets in the periods the payments are made. The Company reflects the ASRs as a repurchase of common stock in the period delivered for purposes of calculating earnings per share and as forward contracts indexed to its own common stock. The ASRs met all of the applicable criteria for equity classification, and therefore were not accounted for as derivative instruments.

The following table shows the Company's ASR activity and related information during the years ended September 26, 2015 and September 27, 2014:

	Purchase Period End Date	Number of Shares (in thousands)	Average Repurchase Price Per Share	ASR Amount (in millions)
May 2015 ASR	July 2015	48,293 (1)	$ 124.24	$ 6,000
August 2014 ASR	February 2015	81,525 (2)	$ 110.40	$ 9,000
January 2014 ASR	December 2014	134,247	$ 89.39	$ 12,000
April 2013 ASR	March 2014	172,548	$ 69.55	$ 12,000

(1) Includes 38.3 million shares delivered and retired at the beginning of the purchase period, which began in the third quarter of 2015 and 10.0 million shares delivered and retired at the end of the purchase period, which concluded in the fourth quarter of 2015.

(2) Includes 59.9 million shares delivered and retired at the beginning of the purchase period, which began in the fourth quarter of 2014, 8.3 million net shares delivered and retired in the first quarter of 2015 and 13.3 million shares delivered and retired at the end of the purchase period, which concluded in the second quarter of 2015.

Additionally, the Company repurchased shares of its common stock in the open market, which were retired upon repurchase, during the periods presented as follows:

	Number of Shares (in thousands)	Average Repurchase Price Per Share	Amount (in millions)
2015:			
Fourth quarter	121,802	$ 115.15	$ 14,026
Third quarter	31,231	$ 128.08	4,000
Second quarter	56,400	$ 124.11	7,000
First quarter	45,704	$ 109.40	5,000
Total open market common stock repurchases	255,137		$ 30,026
2014:			
Fourth quarter	81,255	$ 98.46	$ 8,000
Third quarter	58,661	$ 85.23	5,000
Second quarter	79,749	$ 75.24	6,000
First quarter	66,847	$ 74.79	5,000
Total open market common stock repurchases	286,512		$ 24,000

Table of Contents

Note 8 – Comprehensive Income

Comprehensive income consists of two components, net income and OCI. OCI refers to revenue, expenses, and gains and losses that under GAAP are recorded as an element of shareholders' equity but are excluded from net income. The Company's OCI consists of foreign currency translation adjustments from those subsidiaries not using the U.S. dollar as their functional currency, net deferred gains and losses on certain derivative instruments accounted for as cash flow hedges and unrealized gains and losses on marketable securities classified as available-for-sale.

The following table shows the pre-tax amounts reclassified from AOCI into the Consolidated Statements of Operations, and the associated financial statement line item, for 2015 and 2014 (in millions):

Comprehensive Income Components	Financial Statement Line Item	2015	2014
Unrealized (gains)/losses on derivative instruments:			
Foreign exchange contracts	Revenue	$ (2,432)	$ 449
	Cost of sales	(2,168)	(295)
	Other income/(expense), net	456	15
Interest rate contracts	Other income/(expense), net	17	16
		(4,127)	185
Unrealized (gains)/losses on marketable securities	Other income/(expense), net	91	(205)
Total amounts reclassified from AOCI		$ (4,036)	$ (20)

The following table shows the changes in AOCI by component for 2015 (in millions):

	Cumulative Foreign Currency Translation	Unrealized Gains/Losses on Derivative Instruments	Unrealized Gains/Losses on Marketable Securities	Total
Balance at September 28, 2013	$ (105)	$ (175)	$ (191)	$ (471)
Other comprehensive income/(loss) before reclassifications	(187)	1,687	438	1,938
Amounts reclassified from AOCI	0	185	(205)	(20)
Tax effect	50	(333)	(82)	(365)
Other comprehensive income/(loss)	(137)	1,539	151	1,553
Balance at September 27, 2014	(242)	1,364	(40)	1,082
Other comprehensive income/(loss) before reclassifications	(612)	3,346	(747)	1,987
Amounts reclassified from AOCI	0	(4,127)	91	(4,036)
Tax effect	201	189	232	622
Other comprehensive income/(loss)	(411)	(592)	(424)	(1,427)
Balance at September 26, 2015	$ (653)	$ 772	$ (464)	$ (345)

Table of Contents

Note 9 – Benefit Plans

2014 Employee Stock Plan

In the second quarter of 2014, shareholders approved the 2014 Employee Stock Plan (the "2014 Plan") and terminated the Company's authority to grant new awards under the 2003 Employee Stock Plan (the "2003 Plan"). The 2014 Plan provides for broad-based equity grants to employees, including executive officers, and permits the granting of RSUs, stock grants, performance-based awards, stock options and stock appreciation rights, as well as cash bonus awards. RSUs granted under the 2014 Plan generally vest over four years, based on continued employment, and are settled upon vesting in shares of the Company's common stock on a one-for-one basis. Each share issued with respect to RSUs granted under the 2014 Plan reduces the number of shares available for grant under the plan by two shares. RSUs cancelled and shares withheld to satisfy tax withholding obligations increase the number of shares available for grant under the 2014 Plan utilizing a factor of two times the number of RSUs cancelled or shares withheld. Currently, all RSUs granted under the 2014 Plan have dividend equivalent rights ("DERs"), which entitle holders of RSUs to the same dividend value per share as holders of common stock. DERs are subject to the same vesting and other terms and conditions as the corresponding unvested RSUs. DERs are accumulated and paid when the underlying shares vest. Upon approval of the 2014 Plan, the Company reserved 385 million shares plus the number of shares remaining that were reserved but not issued under the 2003 Plan. Shares subject to outstanding awards under the 2003 Plan that expire, are cancelled or otherwise terminate, or are withheld to satisfy tax withholding obligations with respect to RSUs, will also be available for awards under the 2014 Plan. As of September 26, 2015, approximately 442.9 million shares were reserved for future issuance under the 2014 Plan.

2003 Employee Stock Plan

The 2003 Plan is a shareholder approved plan that provided for broad-based equity grants to employees, including executive officers. The 2003 Plan permitted the granting of incentive stock options, nonstatutory stock options, RSUs, stock appreciation rights, stock purchase rights and performance-based awards. Options granted under the 2003 Plan generally expire seven to ten years after the grant date and generally become exercisable over a period of four years, based on continued employment, with either annual, semi-annual or quarterly vesting. RSUs granted under the 2003 Plan generally vest over two to four years, based on continued employment and are settled upon vesting in shares of the Company's common stock on a one-for-one basis. All RSUs, other than RSUs held by the Chief Executive Officer, granted under the 2003 Plan have DERs. DERs are subject to the same vesting and other terms and conditions as the corresponding unvested RSUs. DERs are accumulated and paid when the underlying shares vest. In the second quarter of 2014, the Company terminated the authority to grant new awards under the 2003 Plan.

1997 Director Stock Plan

The 1997 Director Stock Plan (the "Director Plan") is a shareholder approved plan that (i) permits the Company to grant awards of RSUs or stock options to the Company's non-employee directors, (ii) provides for automatic initial grants of RSUs upon a non-employee director joining the Board of Directors and automatic annual grants of RSUs at each annual meeting of shareholders, and (iii) permits the Board of Directors to prospectively change the relative mixture of stock options and RSUs for the initial and annual award grants and the methodology for determining the number of shares of the Company's common stock subject to these grants without shareholder approval. Each share issued with respect to RSUs granted under the Director Plan reduces the number of shares available for grant under the plan by two shares. The Director Plan expires November 9, 2019. All RSUs granted under the Director Plan are entitled to DERs. DERs are subject to the same vesting and other terms and conditions as the corresponding unvested RSUs. DERs are accumulated and paid when the underlying shares vest. As of September 26, 2015, approximately 1.2 million shares were reserved for future issuance under the Director Plan.

Rule 10b5-1 Trading Plans

During the fourth quarter of 2015, Section 16 officers Timothy D. Cook, Angela Ahrendts, Luca Maestri, Daniel Riccio, Philip Schiller and Jeffrey Williams had equity trading plans in place in accordance with Rule 10b5-1(c)(1) under the Exchange Act. An equity trading plan is a written document that pre-establishes the amounts, prices and dates (or formula for determining the amounts, prices and dates) of future purchases or sales of the Company's stock, including shares acquired pursuant to the Company's employee and director equity plans.

Employee Stock Purchase Plan

The Employee Stock Purchase Plan (the "Purchase Plan") is a shareholder approved plan under which substantially all employees may purchase the Company's common stock through payroll deductions at a price equal to 85% of the lower of the fair market values of the stock as of the beginning or the end of six-month offering periods. An employee's payroll deductions under the Purchase Plan are limited to 10% of the employee's compensation and employees may not purchase more than $25,000 of stock during any calendar year. As of September 26, 2015, approximately 53.0 million shares were reserved for future issuance under the Purchase Plan.

Table of Contents

401(k) Plan

The Company's 401(k) Plan is a deferred salary arrangement under Section 401(k) of the Internal Revenue Code. Under the 401(k) Plan, participating U.S. employees may defer a portion of their pre-tax earnings, up to the IRS annual contribution limit ($18,000 for calendar year 2015). The Company matches 50% to 100% of each employee's contributions, depending on length of service, up to a maximum 6% of the employee's eligible earnings. The Company's matching contributions to the 401(k) Plan were $200 million, $163 million and $135 million in 2015, 2014 and 2013, respectively.

Restricted Stock Units

A summary of the Company's RSU activity and related information for 2015, 2014 and 2013, is as follows:

	Number of RSUs (in thousands)	Weighted-Average Grant Date Fair Value Per Share	Aggregate Intrinsic Value (in millions)
Balance at September 29, 2012	105,037	$ 49.27	
RSUs granted	39,415	$ 78.23	
RSUs vested	(42,291)	$ 45.96	
RSUs cancelled	(8,877)	$ 57.31	
Balance at September 28, 2013	93,284	$ 62.24	
RSUs granted	59,269	$ 74.54	
RSUs vested	(43,111)	$ 57.29	
RSUs cancelled	(5,620)	$ 68.47	
Balance at September 27, 2014	103,822	$ 70.98	
RSUs granted	45,587	$ 105.51	
RSUs vested	(41,684)	$ 71.32	
RSUs cancelled	(6,258)	$ 80.34	
Balance at September 26, 2015	101,467	$ 85.77	$ 11,639

The fair value as of the respective vesting dates of RSUs was $4.8 billion, $3.4 billion and $3.1 billion for 2015, 2014 and 2013, respectively. The majority of RSUs that vested in 2015, 2014 and 2013 were net-share settled such that the Company withheld shares with value equivalent to the employees' minimum statutory obligation for the applicable income and other employment taxes, and remitted the cash to the appropriate taxing authorities. The total shares withheld were approximately 14.1 million, 15.6 million and 15.5 million for 2015, 2014 and 2013, respectively, and were based on the value of the RSUs on their respective vesting dates as determined by the Company's closing stock price. Total payments for the employees' tax obligations to taxing authorities were $1.6 billion, $1.2 billion and $1.1 billion in 2015, 2014 and 2013, respectively, and are reflected as a financing activity within the Consolidated Statements of Cash Flows. These net-share settlements had the effect of share repurchases by the Company as they reduced the number of shares that would have otherwise been issued as a result of the vesting and did not represent an expense to the Company.

Stock Options

The Company had 1.2 million stock options outstanding as of September 26, 2015, with a weighted-average exercise price per share of $15.08 and weighted-average remaining contractual term of 4.1 years, substantially all of which are exercisable. The aggregate intrinsic value of the stock options outstanding as of September 26, 2015 was $120 million, which represents the value of the Company's closing stock price on the last trading day of the period in excess of the weighted-average exercise price multiplied by the number of options outstanding. Total intrinsic value of options at time of exercise was $479 million, $1.5 billion and $1.0 billion for 2015, 2014 and 2013, respectively.

Table of Contents

Share-based Compensation

The following table shows a summary of the share-based compensation expense included in the Consolidated Statements of Operations for 2015, 2014 and 2013 (in millions):

	2015	2014	2013
Cost of sales	$ 575	$ 450	$ 350
Research and development	1,536	1,216	917
Selling, general and administrative	1,475	1,197	986
Total share-based compensation expense	$ 3,586	$ 2,863	$ 2,253

The income tax benefit related to share-based compensation expense was $1.2 billion, $1.0 billion and $816 million for 2015, 2014 and 2013, respectively. As of September 26, 2015, the total unrecognized compensation cost related to outstanding stock options, RSUs and restricted stock was $6.8 billion, which the Company expects to recognize over a weighted-average period of 2.7 years.

Note 10 – Commitments and Contingencies

Accrued Warranty and Indemnification

The following table shows changes in the Company's accrued warranties and related costs for 2015, 2014 and 2013 (in millions):

	2015	2014	2013
Beginning accrued warranty and related costs	$ 4,159	$ 2,967	$ 1,638
Cost of warranty claims	(4,401)	(3,760)	(3,703)
Accruals for product warranty	5,022	4,952	5,032
Ending accrued warranty and related costs	$ 4,780	$ 4,159	$ 2,967

The Company generally does not indemnify end-users of its operating system and application software against legal claims that the software infringes third-party intellectual property rights. Other agreements entered into by the Company sometimes include indemnification provisions under which the Company could be subject to costs and/or damages in the event of an infringement claim against the Company or an indemnified third-party. In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss with respect to indemnification of end-users of its operating system or application software for infringement of third-party intellectual property rights. The Company did not record a liability for infringement costs related to indemnification as of September 26, 2015 or September 27, 2014.

In September 2015, the Company introduced the iPhone Upgrade Program, which is available to customers who purchase an iPhone 6s and 6s Plus in one of its U.S. physical retail stores and activate the purchased iPhone with one of the four national carriers. The iPhone Upgrade Program provides customers the right to trade in that iPhone for a new iPhone, provided certain conditions are met. One of the conditions of this program requires the customer to finance the initial purchase price of the iPhone with a third-party lender. Upon exercise of the trade-in right and purchase of a new iPhone, the Company satisfies the customer's outstanding balance due to the third-party lender on the original device. The Company accounts for the trade-in right as a guarantee liability and recognizes arrangement revenue net of the fair value of such right with subsequent changes to the guarantee liability recognized within revenue.

The Company has entered into indemnification agreements with its directors and executive officers. Under these agreements, the Company has agreed to indemnify such individuals to the fullest extent permitted by law against liabilities that arise by reason of their status as directors or officers and to advance expenses incurred by such individuals in connection with related legal proceedings. It is not possible to determine the maximum potential amount of payments the Company could be required to make under these agreements due to the limited history of prior indemnification claims and the unique facts and circumstances involved in each claim. However, the Company maintains directors and officers liability insurance coverage to reduce its exposure to such obligations.

Concentrations in the Available Sources of Supply of Materials and Product

Although most components essential to the Company's business are generally available from multiple sources, a number of components are currently obtained from single or limited sources. In addition, the Company competes for various components with other participants in the markets for mobile communication and media devices and personal computers. Therefore, many components used by the Company, including those that are available from multiple sources, are at times subject to industry-wide shortage and significant pricing fluctuations that could materially adversely affect the Company's financial condition and operating results.

Table of Contents

The Company uses some custom components that are not commonly used by its competitors, and new products introduced by the Company often utilize custom components available from only one source. When a component or product uses new technologies, initial capacity constraints may exist until the suppliers' yields have matured or manufacturing capacity has increased. If the Company's supply of components for a new or existing product were delayed or constrained, or if an outsourcing partner delayed shipments of completed products to the Company, the Company's financial condition and operating results could be materially adversely affected. The Company's business and financial performance could also be materially adversely affected depending on the time required to obtain sufficient quantities from the original source, or to identify and obtain sufficient quantities from an alternative source. Continued availability of these components at acceptable prices, or at all, may be affected if those suppliers concentrated on the production of common components instead of components customized to meet the Company's requirements.

The Company has entered into agreements for the supply of many components; however, there can be no guarantee that the Company will be able to extend or renew these agreements on similar terms, or at all. Therefore, the Company remains subject to significant risks of supply shortages and price increases that could materially adversely affect its financial condition and operating results.

Substantially all of the Company's hardware products are manufactured by outsourcing partners that are located primarily in Asia. A significant concentration of this manufacturing is currently performed by a small number of outsourcing partners, often in single locations. Certain of these outsourcing partners are the sole-sourced suppliers of components and manufacturers for many of the Company's products. Although the Company works closely with its outsourcing partners on manufacturing schedules, the Company's operating results could be adversely affected if its outsourcing partners were unable to meet their production commitments. The Company's purchase commitments typically cover its requirements for periods up to 150 days.

Other Off-Balance Sheet Commitments

Operating Leases

The Company leases various equipment and facilities, including retail space, under noncancelable operating lease arrangements. The Company does not currently utilize any other off-balance sheet financing arrangements. The major facility leases are typically for terms not exceeding 10 years and generally contain multi-year renewal options. As of September 26, 2015, the Company had a total of 463 retail stores. Leases for retail space are for terms ranging from five to 20 years, the majority of which are for 10 years, and often contain multi-year renewal options. As of September 26, 2015, the Company's total future minimum lease payments under noncancelable operating leases were $6.3 billion, of which $3.6 billion related to leases for retail space.

Rent expense under all operating leases, including both cancelable and noncancelable leases, was $794 million, $717 million and $645 million in 2015, 2014 and 2013, respectively. Future minimum lease payments under noncancelable operating leases having remaining terms in excess of one year as of September 26, 2015, are as follows (in millions):

2016	$ 772
2017	774
2018	744
2019	715
2020	674
Thereafter	2,592
Total	$ 6,271

Other Commitments

The Company utilizes several outsourcing partners to manufacture sub-assemblies for the Company's products and to perform final assembly and testing of finished products. These outsourcing partners acquire components and build product based on demand information supplied by the Company, which typically covers periods up to 150 days. The Company also obtains individual components for its products from a wide variety of individual suppliers. Consistent with industry practice, the Company acquires components through a combination of purchase orders, supplier contracts and open orders based on projected demand information. Where appropriate, the purchases are applied to inventory component prepayments that are outstanding with the respective supplier. As of September 26, 2015, the Company had outstanding off-balance sheet third-party manufacturing commitments and component purchase commitments of $29.5 billion.

Table of Contents

In addition to the commitments mentioned above, the Company had other off-balance sheet obligations of $7.3 billion as of September 26, 2015 that consisted of commitments to acquire capital assets, including product tooling and manufacturing process equipment, and commitments related to inventory prepayments, advertising, licensing, R&D, internet and telecommunications services, energy and other obligations.

Contingencies

The Company is subject to various legal proceedings and claims that have arisen in the ordinary course of business and that have not been fully adjudicated, certain of which are discussed in Part I, Item 1A of this Form 10-K under the heading "Risk Factors" and in Part I, Item 3 of this Form 10-K under the heading "Legal Proceedings." In the opinion of management, there was not at least a reasonable possibility the Company may have incurred a material loss, or a material loss in excess of a recorded accrual, with respect to loss contingencies for asserted legal and other claims. However, the outcome of litigation is inherently uncertain. Therefore, although management considers the likelihood of such an outcome to be remote, if one or more of these legal matters were resolved against the Company in a reporting period for amounts in excess of management's expectations, the Company's consolidated financial statements for that reporting period could be materially adversely affected.

Apple Inc. v. Samsung Electronics Co., Ltd, et al.

On August 24, 2012, a jury returned a verdict awarding the Company $1.05 billion in its lawsuit against Samsung Electronics Co., Ltd and affiliated parties in the United States District Court, Northern District of California, San Jose Division. On March 6, 2014, the District Court entered final judgment in favor of the Company in the amount of approximately $930 million. On May 18, 2015, the U.S. Court of Appeals for the Federal Circuit affirmed in part, and reversed in part, the decision of the District Court. As a result, the Court of Appeals ordered entry of final judgment on damages in the amount of approximately $548 million, with the District Court to determine supplemental damages and interest, as well as damages owed for products subject to the reversal in part. Because the ruling remains subject to further proceedings, the Company has not recognized the award in its results of operations.

Note 11 – Segment Information and Geographic Data

The Company reports segment information based on the "management" approach. The management approach designates the internal reporting used by management for making decisions and assessing performance as the source of the Company's reportable operating segments.

The Company manages its business primarily on a geographic basis. The Company's reportable operating segments consist of the Americas, Europe, Greater China, Japan and Rest of Asia Pacific. The Americas segment includes both North and South America. The Europe segment includes European countries, as well as India, the Middle East and Africa. The Greater China segment includes China, Hong Kong and Taiwan. The Rest of Asia Pacific segment includes Australia and those Asian countries not included in the Company's other reportable operating segments. Although each reportable operating segment provides similar hardware and software products and similar services, they are managed separately to better align with the location of the Company's customers and distribution partners and the unique market dynamics of each geographic region. The accounting policies of the various segments are the same as those described in Note 1, "Summary of Significant Accounting Policies."

The Company evaluates the performance of its reportable operating segments based on net sales and operating income. Net sales for geographic segments are generally based on the location of customers and sales through the Company's retail stores located in those geographic locations. Operating income for each segment includes net sales to third parties, related cost of sales and operating expenses directly attributable to the segment. Advertising expenses are generally included in the geographic segment in which the expenditures are incurred. Operating income for each segment excludes other income and expense and certain expenses managed outside the reportable operating segments. Costs excluded from segment operating income include various corporate expenses such as R&D, corporate marketing expenses, certain share-based compensation expenses, income taxes, various nonrecurring charges and other separately managed general and administrative costs. The Company does not include intercompany transfers between segments for management reporting purposes.

Table of Contents

The following table shows information by reportable operating segment for 2015, 2014 and 2013 (in millions):

	2015	2014	2013
Americas:			
Net sales	$ 93,864	$ 80,095	$ 77,093
Operating income	$ 31,186	$ 26,158	$ 24,829
Europe:			
Net sales	$ 50,337	$ 44,285	$ 40,980
Operating income	$ 16,527	$ 14,434	$ 12,767
Greater China:			
Net sales	$ 58,715	$ 31,853	$ 27,016
Operating income	$ 23,002	$ 11,039	$ 8,499
Japan:			
Net sales	$ 15,706	$ 15,314	$ 13,782
Operating income	$ 7,617	$ 6,904	$ 6,668
Rest of Asia Pacific:			
Net sales	$ 15,093	$ 11,248	$ 12,039
Operating income	$ 5,518	$ 3,674	$ 3,762

A reconciliation of the Company's segment operating income to the Consolidated Statements of Operations for 2015, 2014 and 2013 is as follows (in millions):

	2015	2014	2013
Segment operating income	$ 83,850	$ 62,209	$ 56,525
Research and development expense	(8,067)	(6,041)	(4,475)
Other corporate expenses, net	(4,553)	(3,665)	(3,051)
Total operating income	$ 71,230	$ 52,503	$ 48,999

The U.S. and China were the only countries that accounted for more than 10% of the Company's net sales in 2015, 2014 and 2013. There was no single customer that accounted for more than 10% of net sales in 2015, 2014 or 2013. Net sales for 2015, 2014 and 2013 and long-lived assets as of September 26, 2015 and September 27, 2014 are as follows (in millions):

	2015	2014	2013
Net sales:			
U.S.	$ 81,732	$ 68,909	$ 66,197
China (1)	56,547	30,638	25,946
Other countries	95,436	83,248	78,767
Total net sales	$ 233,715	$ 182,795	$ 170,910

	2015	2014
Long-lived assets:		
U.S.	$ 12,022	$ 9,108
China (1)	8,722	9,477
Other countries	3,040	2,917
Total long-lived assets	$ 23,784	$ 21,502

(1) China includes Hong Kong. Long-lived assets located in China consist primarily of product tooling and manufacturing process equipment and assets related to retail stores and related infrastructure.

Table of Contents

Net sales by product for 2015, 2014 and 2013 are as follows (in millions):

	2015	2014	2013
Net Sales by Product:			
iPhone (1)	$ 155,041	$ 101,991	$ 91,279
iPad (1)	23,227	30,283	31,980
Mac (1)	25,471	24,079	21,483
Services (2)	19,909	18,063	16,051
Other Products (1)(3)	10,067	8,379	10,117
Total net sales	$ 233,715	$ 182,795	$ 170,910

(1) Includes deferrals and amortization of related software upgrade rights and non-software services.

(2) Includes revenue from the iTunes Store, App Store, Mac App Store, iBooks Store, Apple Music, AppleCare, Apple Pay, licensing and other services.

(3) Includes sales of Apple TV, Apple Watch, Beats products, iPod and Apple-branded and third-party accessories.

Note 12 – Selected Quarterly Financial Information (Unaudited)

The following tables show a summary of the Company's quarterly financial information for each of the four quarters of 2015 and 2014 (in millions, except per share amounts):

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
2015:				
Net sales	$ 51,501	$ 49,605	$ 58,010	$ 74,599
Gross margin	$ 20,548	$ 19,681	$ 23,656	$ 29,741
Net income	$ 11,124	$ 10,677	$ 13,569	$ 18,024
Earnings per share (1):				
Basic	$ 1.97	$ 1.86	$ 2.34	$ 3.08
Diluted	$ 1.96	$ 1.85	$ 2.33	$ 3.06

	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
2014:				
Net sales	$ 42,123	$ 37,432	$ 45,646	$ 57,594
Gross margin	$ 16,009	$ 14,735	$ 17,947	$ 21,846
Net income	$ 8,467	$ 7,748	$ 10,223	$ 13,072
Earnings per share (1):				
Basic	$ 1.43	$ 1.29	$ 1.67	$ 2.08
Diluted	$ 1.42	$ 1.28	$ 1.66	$ 2.07

(1) Basic and diluted earnings per share are computed independently for each of the quarters presented. Therefore, the sum of quarterly basic and diluted per share information may not equal annual basic and diluted earnings per share.

Table of Contents

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Apple Inc.

We have audited the accompanying consolidated balance sheets of Apple Inc. as of September 26, 2015 and September 27, 2014, and the related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended September 26, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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. 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 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 Apple Inc. at September 26, 2015 and September 27, 2014, and the consolidated results of its operations and its cash flows for each of the three years in the period ended September 26, 2015, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Apple Inc.'s internal control over financial reporting as of September 26, 2015, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated October 28, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
October 28, 2015

Table of Contents

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of Apple Inc.

We have audited Apple Inc.'s internal control over financial reporting as of September 26, 2015, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) ("the COSO criteria"). Apple Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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.

In our opinion, Apple Inc. maintained, in all material respects, effective internal control over financial reporting as of September 26, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the 2015 consolidated financial statements of Apple Inc. and our report dated October 28, 2015 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
October 28, 2015

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation under the supervision and with the participation of the Company's management, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") were effective as of September 26, 2015 to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission rules and forms and (ii) accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Inherent Limitations Over Internal Controls

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles ("GAAP"). The Company's 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 the Company's assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Management, including the Company's Chief Executive Officer and Chief Financial Officer, does not expect that the Company's internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act). Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting based on the criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Based on the Company's assessment, management has concluded that its internal control over financial reporting was effective as of September 26, 2015 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with GAAP. The Company's independent registered public accounting firm, Ernst & Young LLP, has issued an audit report on the Company's internal control over financial reporting, which appears in Part II, Item 8 of this Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting during the fourth quarter of 2015, which were identified in connection with management's evaluation required by paragraph (d) of rules 13a-15 and 15d-15 under the Exchange Act, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

Not applicable.

Table of Contents

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this Item is set forth under the headings “Directors, Corporate Governance and Executive Officers” in the Company's 2016 Proxy Statement to be filed with the U.S. Securities and Exchange Commission (the “SEC”) within 120 days after September 26, 2015 in connection with the solicitation of proxies for the Company's 2016 annual meeting of shareholders and is incorporated herein by reference.

The Company has a code of ethics, “Business Conduct: The way we do business worldwide,” that applies to all employees, including the Company's principal executive officer, principal financial officer, and principal accounting officer, as well as to the members of the Board of Directors of the Company. The code is available at investor.apple.com/corporate-governance.cfm. The Company intends to disclose any changes in, or waivers from, this code by posting such information on the same website or by filing a Form 8-K, in each case to the extent such disclosure is required by rules of the SEC or the NASDAQ Stock Market LLC.

Item 11. Executive Compensation

The information required by this Item is set forth under the heading “Executive Compensation” and under the subheadings “Board Oversight of Risk Management,” “Compensation Committee Interlocks and Insider Participation,” “Compensation of Directors” and “Director Compensation-2015” under the heading “Directors, Corporate Governance and Executive Officers” in the Company's 2016 Proxy Statement to be filed with the SEC within 120 days after September 26, 2015 and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this Item is set forth under the headings “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the Company's 2016 Proxy Statement to be filed with the SEC within 120 days after September 26, 2015 and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this Item is set forth under the subheadings “Board Committees”, “Review, Approval or Ratification of Transactions with Related Persons” and “Transactions with Related Persons” under the heading “Directors, Corporate Governance and Executive Officers” in the Company's 2016 Proxy Statement to be filed with the SEC within 120 days after September 26, 2015 and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by this Item is set forth under the subheadings “Fees Paid to Auditors” and “Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services Performed by the Independent Registered Public Accounting Firm” under the proposal “Ratification of Appointment of Independent Registered Public Accounting Firm” in the Company's 2016 Proxy Statement to be filed with the SEC within 120 days after September 26, 2015 and is incorporated herein by reference.

Table of Contents

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report

(1) All financial statements

Index to Consolidated Financial Statements	Page
Consolidated Statements of Operations for the years ended September 26, 2015, September 27, 2014 and September 28, 2013	39
Consolidated Statements of Comprehensive Income for the years ended September 26, 2015, September 27, 2014 and September 28, 2013	40
Consolidated Balance Sheets as of September 26, 2015 and September 27, 2014	41
Consolidated Statements of Shareholders' Equity for the years ended September 26, 2015, September 27, 2014 and September 28, 2013	42
Consolidated Statements of Cash Flows for the years ended September 26, 2015, September 27, 2014 and September 28, 2013	43
Notes to Consolidated Financial Statements	44
Selected Quarterly Financial Information (Unaudited)	68
Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm	69

(2) Financial Statement Schedules

All financial statement schedules have been omitted, since the required information is not applicable or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements and notes thereto included in this Form 10-K.

(3) Exhibits required by Item 601 of Regulation S-K

The information required by this Section (a)(3) of Item 15 is set forth on the exhibit index that follows the Signatures page of this Form 10-K.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: October 28, 2015

Apple Inc.

By: /s/ Luca Maestri
Luca Maestri
Senior Vice President,
Chief Financial Officer

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Timothy D. Cook and Luca Maestri, jointly and severally, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

Name	Title	Date
/s/ Timothy D. Cook TIMOTHY D. COOK	Chief Executive Officer and Director (Principal Executive Officer)	October 28, 2015
/s/ Luca Maestri LUCA MAESTRI	Senior Vice President, Chief Financial Officer (Principal Financial Officer)	October 28, 2015
/s/ Chris Kondo CHRIS KONDO	Senior Director of Corporate Accounting (Principal Accounting Officer)	October 28, 2015
/s/ Al Gore AL GORE	Director	October 28, 2015
/s/ Robert A. Iger ROBERT A. IGER	Director	October 28, 2015
/s/ Andrea Jung ANDREA JUNG	Director	October 28, 2015
/s/ Arthur D. Levinson ARTHUR D. LEVINSON	Director	October 28, 2015
/s/ Ronald D. Sugar RONALD D. SUGAR	Director	October 28, 2015
/s/ Susan L. Wagner SUSAN L. WAGNER	Director	October 28, 2015

Table of Contents

EXHIBIT INDEX (1)

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	Exhibit	Filing Date/ Period End Date
3.1	Restated Articles of Incorporation of the Registrant effective as of June 6, 2014.	8-K	3.1	6/6/14
3.2	Amended and Restated Bylaws of the Registrant effective as of February 28, 2014.	8-K	3.2	3/5/14
4.1	Form of Common Stock Certificate of the Registrant.	10-Q	4.1	12/30/06
4.2	Indenture, dated as of April 29, 2013, between the Registrant and The Bank of New York Mellon Trust Company, N.A., as Trustee.	S-3	4.1	4/29/13
4.3	Officer's Certificate of the Registrant, dated as of May 3, 2013, including forms of global notes representing the Floating Rate Notes due 2016, Floating Rate Notes due 2018, 0.45% Notes due 2016, 1.00% Notes due 2018, 2.40% Notes due 2023 and 3.85% Notes due 2043.	8-K	4.1	5/3/13
4.4	Officer's Certificate of the Registrant, dated as of May 6, 2014, including forms of global notes representing the Floating Rate Notes due 2017, Floating Rate Notes due 2019, 1.05% Notes due 2017, 2.10% Notes due 2019, 2.85% Notes due 2021, 3.45% Notes due 2024 and 4.45% Notes due 2044.	8-K	4.1	5/6/14
4.5	Officer's Certificate of the Registrant, dated as of November 10, 2014, including forms of global notes representing the 1.000% Notes due 2022 and 1.625% Notes due 2026.	8-K	4.1	11/10/14
4.6	Officer's Certificate of the Registrant, dated as of February 9, 2015, including forms of global notes representing the Floating Rate Notes due 2020, 1.55% Notes due 2020, 2.15% Notes due 2022, 2.50% Notes due 2025 and 3.45% Notes due 2045.	8-K	4.1	2/9/15
4.7	Officer's Certificate of the Registrant, dated as of May 13, 2015, including forms of global notes representing the Floating Rate Notes due 2017, Floating Rate Notes due 2020, 0.900% Notes due 2017, 2.000% Notes due 2020, 2.700% Notes due 2022, 3.200% Notes due 2025, and 4.375% Notes due 2045.	8-K	4.1	5/13/15
4.8	Officer's Certificate of the Registrant, dated as of June 10, 2015, including forms of global notes representing the 0.35% Notes due 2020.	8-K	4.1	6/10/15
4.9	Officer's Certificate of the Registrant, dated as of July 31, 2015, including forms of global notes representing the 3.05% Notes due 2029 and 3.60% Notes due 2042.	8-K	4.1	7/31/15
4.10	Officer's Certificate of the Registrant, dated as of September 17, 2015, including forms of global notes representing the 1.375% Notes due 2024 and 2.000% Notes due 2027.	8-K	4.1	9/17/15
10.1*	Employee Stock Purchase Plan, as amended and restated as of March 10, 2015.	8-K	10.1	3/13/15
10.2*	Form of Indemnification Agreement between the Registrant and each director and executive officer of the Registrant.	10-Q	10.2	6/27/09
10.3*	1997 Director Stock Plan, as amended through August 23, 2012.	10-Q	10.3	12/28/13
10.4*	2003 Employee Stock Plan, as amended through February 25, 2010.	8-K	10.1	3/1/10
10.5*	Form of Restricted Stock Unit Award Agreement under 2003 Employee Stock Plan effective as of November 16, 2010.	10-Q	10.10	12/25/10
10.6*	Form of Restricted Stock Unit Award Agreement under 2003 Employee Stock Plan effective as of April 6, 2012.	10-Q	10.8	3/31/12

Table of Contents

Exhibit Number	Exhibit Description	Incorporated by Reference		
		Form	Exhibit	Filing Date/ Period End Date
10.7*	Summary Description of Amendment, effective as of May 24, 2012, to certain Restricted Stock Unit Award Agreements outstanding as of April 5, 2012.	10-Q	10.8	6/30/12
10.8*	2014 Employee Stock Plan.	8-K	10.1	3/5/14
10.9*	Form of Restricted Stock Unit Award Agreement under 2014 Employee Stock Plan as of February 28, 2014.	8-K	10.2	3/5/14
10.10*	Form of Performance Award Agreement under 2014 Employee Stock Plan effective as of February 28, 2014.	8-K	10.3	3/5/14
10.11*	Form of Restricted Stock Unit Award Agreement under 2014 Employee Stock Plan effective as of August 26, 2014.	10-K	10.11	9/27/14
10.12*	Form of Performance Award Agreement under 2014 Employee Stock Plan effective as of August 26, 2014.	10-K	10.12	9/27/14
10.13*	Form of Amendment, effective as of August 26, 2014, to Restricted Stock Unit Award Agreements and Performance Award Agreements outstanding as of August 26, 2014.	10-K	10.13	9/27/14
10.14*	Offer Letter, dated August 1, 2013, from the Registrant to Angela Ahrendts.	10-Q	10.14	12/27/14
12.1**	Computation of Ratio of Earnings to Fixed Charges.			
21.1**	Subsidiaries of the Registrant.			
23.1**	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.			
24.1**	Power of Attorney (included on the Signatures page of this Annual Report on Form 10-K).			
31.1**	Rule 13a-14(a) / 15d-14(a) Certification of Chief Executive Officer.			
31.2**	Rule 13a-14(a) / 15d-14(a) Certification of Chief Financial Officer.			
32.1***	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer.			
101.INS**	XBRL Instance Document.			
101.SCH**	XBRL Taxonomy Extension Schema Document.			
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.			
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.			
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.			
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.			

* Indicates management contract or compensatory plan or arrangement.

** Filed herewith.

*** Furnished herewith.

(1) Certain instruments defining the rights of holders of long-term debt securities of the Registrant are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Registrant hereby undertakes to furnish to the SEC, upon request, copies of any such instruments.

Exhibit 12.1

Apple Inc.
Computation of Ratio of Earnings to Fixed Charges
(In millions, except ratios)

	Years ended				
	September 26, 2015	**September 27, 2014**	**September 28, 2013**	**September 29, 2012**	**September 24, 2011**
Earnings:					
Earnings before provision for income taxes	$ 72,515	$ 53,483	$ 50,155	$ 55,763	$ 34,205
Add: Fixed Charges	892	527	265	98	68
Total Earnings	$ 73,407	$ 54,010	$ 50,420	$ 55,861	$ 34,273
Fixed Charges (1):					
Interest Expense	$ 733	$ 384	$ 136	$ 0	$ 0
Interest component of rental expense	159	143	129	98	68
Total Fixed Charges	$ 892	$ 527	$ 265	$ 98	$ 68
Ratio of Earnings to Fixed Charges (2)	82	102	190	570	504

(1) Fixed charges include the portion of rental expense that management believes is representative of the interest component.

(2) The ratio of earnings to fixed charges is computed by dividing Total Earnings by Total Fixed Charges.

Exhibit 21.1

Subsidiaries of
Apple Inc.*

	Jurisdiction of Incorporation
Apple Sales International	Ireland
Apple Operations International	Ireland
Apple Operations Europe	Ireland
Braeburn Capital, Inc.	Nevada, U.S.

* Pursuant to Item 601(b)(21)(ii) of Regulation S-K, the names of other subsidiaries of Apple Inc. are omitted because, considered in the aggregate, they would not constitute a significant subsidiary as of the end of the year covered by this report.

Exhibit 23.1

Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-203698) pertaining to Apple Inc. Employee Stock Purchase Plan,

(2) Registration Statement (Form S-8 No. 333-195509) pertaining to Apple Inc. 2014 Employee Stock Plan,

(3) Registration Statement (Form S-8 No. 333-193709) pertaining to Topsy Labs, Inc. 2007 Stock Plan,

(4) Registration Statement (Form S-3 ASR No. 333-188191) of Apple Inc.,

(5) Registration Statement (Form S-8 No. 333-184706) pertaining to AuthenTec, Inc. 2007 Stock Incentive Plan and AuthenTec, Inc. 2010 Incentive Plan, as amended,

(6) Registration Statement (Form S-8 No. 333-180981) pertaining to Chomp Inc. 2009 Equity Incentive Plan,

(7) Registration Statement (Form S-8 No. 333-179189) pertaining to Anobit Technologies Ltd. Global Share Incentive Plan (2006),

(8) Registration Statement (Form S-8 No. 333-168279) pertaining to Siri, Inc. 2008 Stock Option/Stock Issuance Plan,

(9) Registration Statement (Form S-8 No. 333-165214) pertaining to Apple Inc. 2003 Employee Stock Plan, la la media, inc. 2005 Stock Plan and Quattro Wireless, Inc. 2006 Stock Option and Grant Plan,

(10) Registration Statement (Form S-8 No. 333-146026) pertaining to Apple Inc. 2003 Employee Stock Plan and Apple Inc. Amended Employee Stock Purchase Plan,

(11) Registration Statement (Form S-8 No. 333-125148) pertaining to Employee Stock Purchase Plan and 2003 Employee Stock Plan, and

(12) Registration Statement (Form S-8 No. 333-60455) pertaining to 1997 Director Stock Option Plan;

of our reports dated October 28, 2015 with respect to the consolidated financial statements of Apple Inc., and the effectiveness of internal control over financial reporting of Apple Inc., included in this Annual Report on Form 10-K for the year ended September 26, 2015.

/s/ Ernst & Young LLP

San Jose, California
October 28, 2015

Exhibit 31.1

CERTIFICATION

I, Timothy D. Cook, certify that:

1. I have reviewed this annual report on Form 10-K of Apple Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize, and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: October 28, 2015

By: /s/ Timothy D. Cook
Timothy D. Cook
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Luca Maestri, certify that:

1. I have reviewed this annual report on Form 10-K of Apple Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize, and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: October 28, 2015

By: /s/ Luca Maestri
Luca Maestri
Senior Vice President,
Chief Financial Officer

Exhibit 32.1

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Timothy D. Cook, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Apple Inc. on Form 10-K for the fiscal year ended September 26, 2015 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents in all material respects the financial condition and results of operations of Apple Inc. at the dates and for the periods indicated.

Date: October 28, 2015

By: /s/ Timothy D. Cook
Timothy D. Cook
Chief Executive Officer

I, Luca Maestri, certify, as of the date hereof, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report of Apple Inc. on Form 10-K for the fiscal year ended September 26, 2015 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Form 10-K fairly presents in all material respects the financial condition and results of operations of Apple Inc. at the dates and for the periods indicated.

Date: October 28, 2015

By: /s/ Luca Maestri
Luca Maestri
Senior Vice President,
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Apple Inc. and will be retained by Apple Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

COEX-8.188

COEX
8.188

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended **December 31, 2015**

OR

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

For the transition period from _____ to _____.

State or Other Jurisdiction of Incorporation	Exact Name of Registrant as specified in its Charter, Address of Principal Executive Offices, Zip Code and Telephone Number (Including Area Code)	Commission File Number	IRS Employer Identification No.
Delaware	**Alphabet Inc.** 1600 Amphitheatre Parkway Mountain View, CA 94043 (650) 253-0000	001-37580	61-1767919
Delaware	**Google Inc.** 1600 Amphitheatre Parkway Mountain View, CA 94043 (650) 253-0000	001-36380	77-0493581

Securities registered pursuant to Section 12(b) of the Act:

	Title of each class	Name of each exchange on which registered
Alphabet Inc.:		
	Class A Common Stock $0.001 par value	Nasdaq Stock Market LLC (Nasdaq Global Select Market)
	Class C Capital Stock $0.001 par value	Nasdaq Stock Market LLC (Nasdaq Global Select Market)
Google Inc.:		
	None	

Securities registered pursuant to Section 12(g) of the Act:

	Title of each class
Alphabet Inc.:	
	None
Google Inc.:	
	None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Alphabet Inc.	Yes ý	No ¨
Google Inc.	Yes ¨	No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Alphabet Inc.	Yes ¨	No ý

Google Inc.	Yes ý	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.

Alphabet Inc.	Yes ý	No ¨
Google Inc.	Yes ý	No ¨

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 Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Alphabet Inc.	Yes ý	No ¨
Google Inc.	Yes ý	No ¨

Indicate by check mark if 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 amendment to this Form 10-K.

Alphabet Inc.	¨
Google Inc.	¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Alphabet Inc.	Large accelerated filer ý	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨
Google Inc.	Large accelerated filer ý	Accelerated filer ¨	Non-accelerated filer ¨	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Alphabet Inc.	Yes ¨	No ý
Google Inc.	Yes ¨	No ý

As of June 30, 2015, the aggregate market value of shares held by non-affiliates of Google Inc. (the predecessor issuer pursuant to Rule 12g-3(a) under the Securities Exchange Act) (based upon the closing sale prices of such shares on the Nasdaq Global Select Market on June 30, 2015) was approximately $311.0 billion. For purposes of calculating the aggregate market value of shares held by non-affiliates, we have assumed that all outstanding shares are held by non-affiliates, except for shares held by each of our executive officers, directors and 5% or greater stockholders. In the case of 5% or greater stockholders, we have not deemed such stockholders to be affiliates unless there are facts and circumstances which would indicate that such stockholders exercise any control over our company, or unless they hold 10% or more of our outstanding common stock. These assumptions should not be deemed to constitute an admission that all executive officers, directors and 5% or greater stockholders are, in fact, affiliates of our company, or that there are not other persons who may be deemed to be affiliates of our company. Further information concerning shareholdings of our officers, directors and principal stockholders is included or incorporated by reference in Part III, Item 12 of this Annual Report on Form 10-K.

As of February 1, 2016, the following amounts were outstanding for Alphabet Inc. (the successor issuer pursuant to Rule 12g-3(a) under the Exchange Act as of October 2, 2015) (Alphabet): 292,580,627 shares of Alphabet's Class A common stock; 50,199,837 shares of Alphabet's Class B common stock; and 345,539,303 shares of Alphabet's Class C capital stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2016 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended December 31, 2015.

Explanatory Note

This Annual Report on Form 10-K is a combined report being separately filed by Google Inc. ("Google") and Alphabet Inc. ("Alphabet"), the successor issuer to, and parent holding company of, Google. Alphabet owns all of the equity interests in Google, and Google meets the conditions set forth in General Instruction I(1)(a), (b) and (d) of Form 10-K and is therefore filing its information within this Form 10-K with the reduced disclosure format. Each of Alphabet and Google is filing on its own behalf the information contained in this report that relates to itself, and neither registrant makes any representation as to information relating to the other registrant. Where information or an explanation is provided that is substantially the same for each registrant, such information or explanation has been combined in this report. Where information or an explanation is not substantially the same for each registrant, separate information and explanation has been provided. In addition, separate consolidated financial statements for each registrant, along with notes to the consolidated financial statements, are included in this report. Unless indicated otherwise, throughout this Annual Report on Form 10-K, we refer to Alphabet and its consolidated subsidiaries, including Google and its consolidated subsidiaries, as "we," "us," and "our;" Alphabet Inc. and its subsidiaries as "Alphabet;" and Google Inc. and its subsidiaries as "Google."

Alphabet Inc. and Google Inc.
Form 10-K
For the Fiscal Year Ended December 31, 2015

TABLE OF CONTENTS

		Page
Note About Forward-Looking Statements		1
PART I		
Item 1.	Business	2
Item 1A.	Risk Factors	6
Item 1B.	Unresolved Staff Comments	17
Item 2.	Properties	17
Item 3.	Legal Proceedings	18
Item 4.	Mine Safety Disclosures	18
PART II		
Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	18
Item 6.	Selected Financial Data	20
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	22
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	41
Item 8.	Financial Statements and Supplementary Data	43
Item 9.	Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	98
Item 9A.	Controls and Procedures	98
Item 9B.	Other Information	99
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	100
Item 11.	Executive Compensation	100
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	100
Item 13.	Certain Relationships and Related Transactions, and Director Independence	100
Item 14.	Principal Accountant Fees and Services	100
PART IV		
Item 15.	Exhibits, Financial Statement Schedules	101

NOTE ABOUT FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, among other things, statements regarding:

- the growth of our business and revenues and our expectations about the factors that influence our success and trends in our business;
- our plans to continue to invest in new businesses, products and technologies, systems, facilities, and infrastructure, to continue to hire aggressively and provide competitive compensation programs, as well as to continue to invest in acquisitions;
- seasonal fluctuations in internet usage and advertiser expenditures, traditional retail seasonality and macroeconomic conditions, which are likely to cause fluctuations in our quarterly results;
- the potential for declines in our revenue growth rate;
- our expectation that growth in advertising revenues from our websites will continue to exceed that from our Google Network Members' websites, which will have a positive impact on our operating margins;
- our expectation that we will continue to take steps to improve the relevance of the ads we deliver and to reduce the number of accidental clicks;
- fluctuations in the rate of change in revenue and revenue growth, as well as the rate of change in paid clicks and average cost-per-click and various factors contributing to such fluctuations;
- our belief that our foreign exchange risk management program will not fully offset our net exposure to fluctuations in foreign currency exchange rates;
- the expected increase of costs related to hedging activities under our foreign exchange risk management program;
- our expectation that our cost of revenues, research and development expenses, sales and marketing expenses, and general and administrative expenses will increase in dollars and may increase as a percentage of revenues;
- our potential exposure in connection with pending investigations, proceedings, and other contingencies;
- our expectation that our traffic acquisition costs will fluctuate in the future;
- our continued investments in international markets;
- estimates of our future compensation expenses;
- fluctuations in our effective tax rate;
- the sufficiency of our sources of funding;
- our payment terms to certain advertisers, which may increase our working capital requirements;
- fluctuations in our capital expenditures;
- our expectations related to the new operating structure implemented pursuant to the holding company reorganization and the associated disclosure implications;
- the expected timing and amount of Alphabet Inc.'s stock repurchase;
- our intention to align our capital structure so that debt is held at the holding company level;

as well as other statements regarding our future operations, financial condition and prospects, and business strategies. Forward-looking statements may appear throughout this report, including without limitation, the following sections: Item 1 "Business," Item 1A "Risk Factors," and Item 7 "Management’s Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements generally can be identified by words such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "projects," "will be," "will continue," "will likely result," and similar expressions. These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which could cause our actual results to differ materially and adversely from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this Annual Report on Form 10-K, and in particular, the risks discussed under the caption "Risk Factors" in Item 1A of this report and those discussed in other documents we file with the Securities and Exchange Commission (SEC). We undertake no obligation to revise or publicly release the results of any revision to these forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

As used herein, "our company," "we," "us," "our," and similar terms refer collectively to Alphabet Inc. and Google Inc., together with their subsidiaries, unless the context indicates otherwise.

"Alphabet," "Google," and other trademarks of ours appearing in this report are our property. This report contains additional trade names and trademarks of other companies. We do not intend our use or display of other companies'

trade names or trademarks to imply an endorsement or sponsorship of us by such companies, or any relationship with any of these companies.

PART I

ITEM 1. BUSINESS

Overview

As our founders Larry and Sergey wrote in the original founders letter, "Google is not a conventional company. We do not intend to become one." As part of that, they also explained that you could expect us to make "smaller bets in areas that might seem very speculative or even strange when compared to our current businesses." From the start, the company has always strived to do more, and to do important and meaningful things with the resources we have.

To help accelerate this, we announced plans in August 2015 to create a new public holding company, called Alphabet. Alphabet is a collection of businesses -- the largest of which, of course, is Google. It also includes businesses that we combine as Other Bets and generally are pretty far afield of our main Internet products such as Verily, Calico, X, Nest, GV, Google Capital and Access/Google Fiber. Our Alphabet structure is about helping businesses within Alphabet prosper through strong leaders and independence.

At Google, our innovations in search and advertising have made our website widely used and our brand one of the most recognized in the world. We generate revenues primarily by delivering online advertising that consumers find relevant and that advertisers find cost-effective. Google's core products such as Search, Android, Maps, Chrome, YouTube, Google Play and Gmail each have over one billion monthly active users. And we believe we are just beginning to scratch the surface. Google's vision is to remain a place of incredible creativity and innovation that uses our technical expertise to tackle big problems. Our Other Bets are also making important strides in their industries, and our goal is for them to become thriving, successful businesses in the long term.

Serving Our Users

In many ways Google search -- and the clean white page with the blinking cursor -- is a metaphor for how we think about innovation. Imagining the ways things could be -- without constraint -- is the process we use to look for better answers to some of life's everyday problems. It's about starting with the "What if?" and then working relentlessly to see if we can find the answer.

It's been that way from the beginning; providing ways to access knowledge and information has been core to Google and our products have come a long way in the last decade. We used to show just ten blue links in our results. You had to click through to different websites to get your answers, which took time. Now we are increasingly able to provide direct answers -- even if you're speaking your question using Voice Search -- which makes it quicker, easier and more natural to find what you're looking for.

Over time, we have added other services that let you access information quickly and easily. What if we could develop a smarter email service with plenty of storage? That's Gmail. What if we could make a simpler, speedier, safer browser? That's Chrome. What if we could provide easy access to movies, books, music and apps, no matter which device you're on? That's Google Play. What if developers could use Google's infrastructure to easily build and scale applications? And what if people could collaborate and get work done from anywhere on any device? That's cloud and apps.

As devices proliferate, it's more and more important to ensure that you can navigate effortlessly across them -- that the technology gets out of the way, so you can move through this multi-screen world as easily as possible. It's why we're investing so much in platforms like our Chrome browser, Chrome OS and our Android mobile operating system. Ultimately, we want you to have speedy, secure access to whatever you need, wherever you happen to be, and on whatever device you may be using at the time.

Ads as Answers

We asked, what if ads weren't intrusive and annoying? What if we could deliver a relevant ad at just the right time and give people useful commercial information? What if we could provide products that allow for better attribution and measurement across screens so that we show great ads for the right people?

Our advertising solutions help millions of companies grow their businesses, and we offer a wide range of products across screens and devices. We generate revenues primarily by delivering both performance advertising and brand advertising.

- **Performance advertising** creates and delivers relevant ads that users will click, leading to direct engagement with advertisers. Most of our performance advertisers pay us when a user engages in their ads. Performance advertising lets our advertisers connect with users while driving measurable results.

For performance advertisers, AdWords, our primary auction-based advertising program, helps create simple text-based ads that appear on Google websites and the websites of Google Network Members, who use our advertising programs to deliver relevant ads alongside their search results and content. In addition, our partners that comprise the Google Network use our AdSense program to deliver relevant ads that generate revenues and enhance the user experience. These programs let both small and large businesses connect with users looking for a specific item, say a pair of shoes or a plane ticket back home. To that end, we continue to invest in our advertising programs and to make significant upgrades, including Estimated Total Conversions, which help advertisers measure the effectiveness of their campaigns in a multi-screen world.

- **Brand advertising** helps enhance users' awareness of and affinity with advertisers' products and services, through videos, text, images, and other interactive ads that run across various devices. We help brand advertisers deliver digital videos and other types of ads to specific audiences for their brand-building marketing campaigns and in turn, generate revenue by distributing their ads such as the TrueView ads displayed on our YouTube videos.

  We have built a world-class ad technology platform for brand advertisers, agencies, and publishers to power their digital marketing businesses. We aim to ensure great user experiences by serving the right ads at the right time and by building deep partnerships with brands and agencies. We also seek to improve the measurability of the effectiveness of brand advertising.

Furthermore, we have invested significantly in programmatic advertising to help advertisers reach users when and where it matters, giving them access to top-tier inventory across screens and formats, as well as the real-time insights that advertisers need to make their buys count.

We have allocated substantial resources to stopping bad advertising practices and protecting users on the web. We focus on creating the best advertising experiences for our users and advertisers in many ways, ranging from removing hundreds of millions of bad ads from our systems every year to closely monitoring the sites and apps that show our ads and blacklisting them when necessary to ensure that our ads do not fund bad content.

Bringing the Next 5 Billion Online

Fast search and high-quality ads matter only if you have access to the Internet. Right now, only a fraction of the seven billion people in the world are fortunate enough to be able to get online. That leaves out billions of people. With so much useful and life-changing information available today, it is unfortunate that such a significant portion of the world's population lacks even the most basic Internet connection.

Those people will be able to learn and start businesses, to grow and prosper in ways they simply could not without an Internet connection. Creating platforms for other people's success is a huge part of who we are. We want the world to join us online and to be greeted with the best possible experience once they get there. Connection is powerful; and we are working hard to make it a reality for everyone. The opportunities to improve lives on a grand scale are endless.

And there are people around the world whose lives we can improve every day by bringing information into their homes, into their schools, and into their pockets -- showing them just how powerful the simple idea of "getting online" can be.

At Google, we are helping people get online by tailoring hardware and software experiences that suit the needs of emerging markets, primarily through Android and Chrome. We're also making sure our core Google apps are fast and useful, especially for users in areas where speed, size and connectivity are central concerns.

Other Alphabet companies are pursuing initiatives with similar goals too. That's why we're investing in new projects, like Project Loon. We asked, what if we could use a network of balloons that could fly at the edge of space and provide connectivity in rural and remote areas? Loon has helped students in Brazil and farmers in New Zealand experience the power of an internet connection for the first time. And as the program expands, we hope to bring this to more and more people -- creating opportunities that simply did not exist before for millions of people, all around the world.

Moonshots

The idea of trying new things is reflected in some of our new, ambitious projects both within Google and Other Bets. Everything might not fit into a neat little box. We believe that is exactly how to stay relevant. Many companies get comfortable doing what they have always done, making only incremental changes. This incrementalism leads to

COEX
8.188

irrelevance over time, especially in technology, where change tends to be revolutionary, not evolutionary. People thought we were crazy when we acquired YouTube and Android, and when we launched Chrome. But as those efforts have matured into major platforms for digital video and mobile devices, and a safer, popular browser, respectively, we continue to look towards the future and continue to invest for the long-term.

We won't become complacent, relying solely on small tweaks as the years wear on. As we said in the 2004 Founders' IPO Letter, we will not shy away from high-risk, high-reward projects that we believe in because they are the key to our long-term success. We won't stop asking "What if?" and then working hard to find the answer.

As explained in the letter from our CEO in August 2015, our Alphabet reorganization was implemented to better allow us to structure teams in ways that we believe will produce the fastest, most focused innovation possible for moonshot projects.

Research

We continue to invest in our existing products and services, including search and advertising, as well as developing new products and services through research and product development. We often release early-stage products. We then use data and user feedback to decide if and how to invest further in those products.

Our research and development expenses, which includes the vast majority of engineering and technical headcount responsible for research and development, as well as their associated costs, were $7.1 billion, $9.8 billion, and $12.3 billion in 2013, 2014 and 2015, respectively, which included stock-based compensation expense of $1.6 billion, $2.2 billion, and $2.7 billion, respectively. We expect to continue investing in hiring talented employees and building systems to develop new products and services and improve existing ones.

Competition

Our business is characterized by rapid change as well as new and disruptive technologies. We face formidable competition in every aspect of our business, particularly from companies that seek to connect people with online information and provide them with relevant advertising. We face competition from:

- General purpose search engines and information services, such as Yahoo, Microsoft's Bing, Yandex, Baidu, Naver, WebCrawler, and MyWebSearch.
- Vertical search engines and e-commerce websites, such as Kayak (travel queries), LinkedIn (job queries), WebMD (health queries), and Amazon and eBay (e-commerce). Some users will navigate directly to such content, websites, and apps rather than go through Google.
- Social networks, such as Facebook and Twitter. Some users are increasingly relying on social networks for product or service referrals, rather than seeking information through traditional search engines.
- Other forms of advertising, such as television, radio, newspapers, magazines, billboards, and yellow pages. Our advertisers typically advertise in multiple media, both online and offline.
- Other online advertising platforms and networks, including Criteo, AppNexus, and Facebook, that compete for advertisers with AdWords, our primary auction-based advertising program.
- Other operating systems and mobile device companies.
- Providers of online products and services that provide answers, information, and services. A number of our online products and services, including Gmail, YouTube, and Google Docs, compete directly with new and established companies, which offer communication, information, storage and entertainment services, either on a stand-alone basis or integrated into other offerings.

Competing successfully depends heavily on our ability to rapidly deliver innovative products and technologies to the marketplace so that we can attract and retain:

- Users, for whom other products and services are literally one click away, primarily on the basis of the relevance and usefulness of our search results and the features, availability, and ease of use of our products and services.
- Advertisers, primarily based on our ability to generate sales leads, and ultimately customers, and to deliver their advertisements in an efficient and effective manner across a variety of distribution channels.
- Content providers (Google Network Members, the parties who use our advertising programs to deliver relevant ads alongside their search results and content, as well as other content providers for whom we distribute or license content), primarily based on the quality of our advertiser base, our ability to help these partners generate revenues from advertising, and the terms of our agreements with them.

Intellectual Property

We rely on various intellectual property laws, confidentiality procedures and contractual provisions to protect our proprietary technology and our brand. We have registered, and applied for the registration of, U.S. and international trademarks service marks, domain names and copyrights. We have also filed patent applications in the U.S. and foreign

countries covering certain of our technology, and acquired patent assets to supplement our portfolio. We have licensed in the past, and expect that we may license in the future, certain of our rights to other parties.

Culture and Employees

We take great pride in our culture. We embrace collaboration and creativity, and encourage the iteration of ideas to address complex technical challenges. Transparency and open dialogue are central to how we work, and we like to ensure that company news reaches our employees first through internal channels.

Despite our rapid growth, we still cherish our roots as a startup and wherever possible empower employees to act on great ideas regardless of their role or function within the company. We strive to hire great employees, with backgrounds and perspectives as diverse as those of our global users. We work to provide an environment where these talented people can have fulfilling careers addressing some of the biggest challenges in technology and society.

Our employees are among our best assets and are critical for our continued success. We expect to continue investing in hiring talented employees and to provide competitive compensation programs to our employees. As of December 31, 2015, we had 61,814 full-time employees: 23,336 in research and development, 19,082 in sales and marketing, 10,944 in operations, and 8,452 in general and administrative functions. Although we have work councils and statutory employee representation obligations in certain countries, our U.S. employees are not represented by a labor union. Competition for qualified personnel in our industry is intense, particularly for software engineers, computer scientists, and other technical staff.

Seasonality

Our business is affected by both seasonal fluctuations in Internet usage and traditional retail seasonality. Internet usage generally slows during the summer months, and commercial queries typically increase significantly in the fourth quarter of each year.

Information about Segments and Geographic Areas

Please refer to Note 16 of the Notes to Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K.

Other Matters

As part of the Alphabet reorganization, we expect to convert Google Inc. into a limited liability company.

Available Information

Our websites are located at www.google.com and www.abc.xyz, and our investor relations website is located at www.abc.xyz/investor. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and our Proxy Statements are available through our investor relations website, free of charge, after we file them with the SEC. We also provide a link to the section of the SEC's website at www.sec.gov that has all of the reports that we file or furnish with the SEC. You may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C. 20549. You can get information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

We webcast via our investor relations website our earnings calls and certain events we participate in or host with members of the investment community. Our investor relations website also provides notifications of news or announcements regarding our financial performance, including SEC filings, investor events, press and earnings releases, and blogs. Further corporate governance information, including our certificate of incorporation, bylaws, governance guidelines, board committee charters, and code of conduct, is also available on our investor relations website under the heading "Other." The content of our websites are not incorporated by reference into this Annual Report on Form 10-K or in any other report or document we file with the SEC, and any references to our websites are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

Our operations and financial results are subject to various risks and uncertainties, including those described below, which could adversely affect our business, financial condition, results of operations, cash flows, and the trading price of our common and capital stock.

Risks Related to Our Businesses and Industries

We face intense competition. If we do not continue to innovate and provide products and services that are useful to users, we may not remain competitive, and our revenues and operating results could be adversely affected.

Our businesses are rapidly evolving, intensely competitive, and subject to changing technologies, shifting user needs, and frequent introductions of new products and services. Competing successfully depends heavily on our ability to deliver innovative products and technologies to the marketplace rapidly and, for Google, provide products and services that make our search results and ads relevant and useful for our users. As our businesses evolve, the competitive pressure to innovate will encompass a wider range of products and services, including products and services that may be outside of our historical core business.

We have many competitors in different industries, including general purpose search engines and information services, vertical search engines and e-commerce websites, social networks, providers of online products and services, other forms of advertising and online advertising platforms and networks, other operating systems, and wireless mobile device companies. Our current and potential domestic and international competitors range from large and established companies to emerging start-ups. Established companies have longer operating histories and more established relationships with customers and users, and they can use their experiences and resources in ways that could affect our competitive position, including by making acquisitions, continuing to invest heavily in research and development, aggressively initiating intellectual property claims (whether or not meritorious), and continuing to compete aggressively for advertisers and websites. Emerging start-ups may be able to innovate and provide products and services faster than we can or may foresee the consumer need for products and services before us.

Our competitors are constantly developing innovations in search, online advertising, wireless mobile devices, operating systems, and many other web-based products and services. The research and development of new, technologically advanced products is also a complex and uncertain process requiring high levels of innovation and investment, as well as the accurate anticipation of technology, market trends, and consumer needs. As a result, we must continue to invest significant resources in research and development, including through acquisitions, in order to enhance our search technology and our existing products and services, and introduce new products and services that people can easily and effectively use. If we are unable to provide quality products and services, then acceptance rates for our products and services could decline. In addition, these new products and services may present new and difficult technological and legal challenges, and we may be subject to claims if users of these offerings experience service disruptions or failures or other issues. Our operating results would also suffer if our innovations are not responsive to the needs of our users, advertisers, and Google Network Members, are not appropriately timed with market opportunities, or are not effectively brought to market. As technology continues to develop, our competitors may be able to offer user experiences that are, or that are seen to be, substantially similar to or better than ours. This may force us to compete in different ways and expend significant resources in order to remain competitive. If our competitors are more successful than we are in developing compelling products or in attracting and retaining users, advertisers, and content providers, our revenues and operating results could be adversely affected.

Our ongoing investment in new businesses and new products, services, and technologies is inherently risky, and could disrupt our ongoing businesses.

We have invested and expect to continue to invest in new businesses, products, services, and technologies. Such endeavors may involve significant risks and uncertainties, including insufficient revenues from such investments to offset any new liabilities assumed and expenses associated with these new investments, inadequate return of capital on our investments, distraction of management from current operations, and unidentified issues not discovered in our due diligence of such strategies and offerings that could cause us to fail to realize the anticipated benefits of such investments and incur unanticipated liabilities. Because these new ventures are inherently risky, no assurance can be given that such strategies and offerings will be successful and will not adversely affect our reputation, financial condition, and operating results.

More people are using devices other than desktop computers to access the Internet and accessing new devices to make search queries. If manufacturers and users do not widely adopt versions of our search technology, products, or operating systems developed for these devices, our business could be adversely affected.

The number of people who access the Internet through devices other than desktop computers, including mobile phones, smartphones, handheld computers such as netbooks and tablets, video game consoles, and television set-top devices, is increasing dramatically. The functionality and user experience associated with some alternative devices may make the use of our products and services through such devices more difficult (or just different) and the versions of our products and services developed for these devices may not be compelling to users, manufacturers, or distributors of alternative devices. Each manufacturer or distributor may establish unique technical standards for its devices, and our products and services may not work or be viewable on these devices as a result. Some manufacturers may also elect not to include our products on their devices. In addition, search queries are increasingly being undertaken via “apps” tailored to particular devices or social media platforms, which could affect our search and advertising business over time. As new devices and platforms are continually being released, it is difficult to predict the problems we may encounter in adapting our products and services and developing competitive new products and services. We expect to continue to devote significant resources to the creation, support, and maintenance of products and services across multiple platforms and devices. If we are unable to attract and retain a substantial number of alternative device manufacturers, distributors, developers, and users to our products and services, or if we are slow to develop products and technologies that are more compatible with alternative devices and platforms, we will fail to capture the opportunities available as consumers and advertisers transition to a dynamic, multi-screen environment.

We generate a significant portion of our revenues from advertising, and reduced spending by advertisers or a loss of partners could seriously harm our business.

We generated 90% of total Google segment revenues from advertising in 2015. Many of our advertisers, companies that distribute our products and services, digital publishers, and content partners can terminate their contracts with us at any time. Those partners may not continue to do business with us if we do not create more value (such as increased numbers of users or customers, new sales leads, increased brand awareness, or more effective monetization) than their available alternatives. If we do not provide superior value or deliver advertisements efficiently and competitively, we could see a decrease in revenue and other adverse impacts to our business. Adverse macroeconomic conditions can also have a material negative impact on advertising revenues, which could adversely affect our revenues and business.

In addition, expenditures by advertisers tend to be cyclical, reflecting overall economic conditions and budgeting and buying patterns. Adverse macroeconomic conditions can also have a material negative impact on the demand for advertising and cause our advertisers to reduce the amounts they spend on advertising, which could adversely affect our revenues and business.

Our revenue growth rate could decline over time, and we anticipate downward pressure on our operating margin in the future.

Our revenue growth rate could decline over time as a result of a number of factors, including:

- increasing competition,
- changes in property mix, platform mix, and geographical mix
- the challenges in maintaining our growth rate as our revenues increase to higher levels,
- the evolution of the online advertising market, including the increasing variety of online platforms for advertising, and the other markets in which we participate, and
- the rate of user adoption of our products, services, and technologies.

We believe our margins could experience downward pressure as a result of increasing competition and increased costs for many aspects of our business. For instance, the margin on revenues we generate from our Google Network Members is significantly less than the margin on revenues we generate from advertising on Google websites. Consequently, our margins will experience downward pressure if a greater percentage of our revenues comes from ads placed on our Google Network Members' websites compared to revenues generated through ads placed on Google websites. Additionally, the margin we earn on revenues generated from our Google Network Members could decrease in the future if we pay an even larger percentage of advertising fees to our Google Network Members.

Additionally, our margins could experience downward pressure because the margin on the sale of digital content

and apps, advertising revenues from mobile devices and newer advertising formats are generally less than the margin on revenues we generate from advertising on our websites or traditional formats. Further, our margins could be impacted

adversely if we spend a proportionately larger amount to promote or distribute certain products or if we invest more heavily in our R&D efforts across the Company (such as our Other Bets businesses) than we have historically.

We are subject to increased regulatory scrutiny that may negatively impact our business.

The growth of our company and our expansion into a variety of new fields involves a variety of new regulatory issues, and we have experienced increased regulatory scrutiny as we have grown. For instance, several regulatory agencies have sought to review our search and other businesses on potential competition concerns. We continue to cooperate with the European Commission (EC) and other regulatory authorities around the world in investigations they are conducting with respect to our business and its impact on competition. Legislators and regulators may make legal and regulatory changes, or interpret and apply existing laws, in ways that make our products and services less useful to our users, require us to incur substantial costs, expose us to unanticipated civil or criminal liability, or cause us to change our business practices. These changes or increased costs could negatively impact our business and results of operations in material ways.

We are regularly subject to claims, suits, government investigations, and other proceedings that may result in adverse outcomes.

We are regularly subject to claims, suits, and government investigations involving competition, intellectual property, privacy, consumer protection, tax, labor and employment, commercial disputes, content generated by our users, goods and services offered by advertisers or publishers using our platforms, and other matters. The sale of hardware products also exposes us to the risk of product liability and other litigation involving assertions about product defects, as well as health and safety, hazardous materials usage, and other environmental concerns. In addition, our businesses face intellectual property litigation, as further discussed later, that exposes us to the risk of exclusion and cease and desist orders, which could limit our ability to sell products and services.

Such claims, suits, and government investigations are inherently uncertain and their results cannot be predicted with certainty. Regardless of the outcome, any of these types of legal proceedings can have an adverse impact on us because of legal costs, diversion of management resources, and other factors. Determining reserves for our pending litigation is a complex, fact-intensive process that requires significant judgment. It is possible that a resolution of one or more such proceedings could result in substantial fines and penalties that could adversely affect our business, consolidated financial position, results of operations, or cash flows in a particular period. These proceedings could also result in reputational harm, criminal sanctions, consent decrees, or orders preventing us from offering certain features, functionalities, products, or services, requiring a change in our business practices or product recalls or other field action, or requiring development of non-infringing or otherwise altered products or technologies. Any of these consequences could adversely affect our business and results of operations.

Acquisitions could result in operating difficulties, dilution, and other consequences that may adversely impact our business and results of operations.

Acquisitions are an important element of our overall corporate strategy and use of capital, and these transactions could be material to our financial condition and results of operations. We expect to continue to evaluate and enter into discussions regarding a wide array of potential strategic transactions. The process of integrating an acquired company, business, or technology has created, and will continue to create, unforeseen operating difficulties and expenditures. The areas where we face risks include:

- Diversion of management time and focus from operating our business to acquisition integration challenges.
- Failure to successfully further develop the acquired business or technology.
- Implementation or remediation of controls, procedures, and policies at the acquired company.
- Integration of the acquired company's accounting, human resource, and other administrative systems, and coordination of product, engineering, and sales and marketing functions.
- Transition of operations, users, and customers onto our existing platforms.
- Failure to obtain required approvals on a timely basis, if at all, from governmental authorities, or conditions placed upon approval, under competition laws which could, among other things, delay or prevent us from completing a transaction, or otherwise restrict our ability to realize the expected financial or strategic goals of an acquisition or investment.

- In the case of foreign acquisitions, the need to integrate operations across different cultures and languages and to address the particular economic, currency, political, and regulatory risks associated with specific countries.

- Cultural challenges associated with integrating employees from the acquired company into our organization, and retention of employees from the businesses we acquire.
- Liability for activities of the acquired company before the acquisition, including patent and trademark infringement claims, privacy issues, violations of laws, commercial disputes, tax liabilities, and other known and unknown liabilities.
- Litigation or other claims in connection with the acquired company, including claims from terminated employees, customers, former stockholders, or other third parties.

Our failure to address these risks or other problems encountered in connection with our past or future acquisitions and investments could cause us to fail to realize the anticipated benefits of such acquisitions or investments, incur unanticipated liabilities, and harm our business generally.

Our acquisitions could also result in dilutive issuances of our equity securities, the incurrence of debt, contingent liabilities, or amortization expenses, or impairment of goodwill and/or purchased long-lived assets, and restructuring charges, any of which could harm our financial condition or results. Also, the anticipated benefits or value of our acquisitions or investments may not materialize.

Our business depends on a strong brand, and failing to maintain and enhance our brand would hurt our ability to expand our base of users, advertisers, Google Network Members, and other partners.

Our strong Google brand has significantly contributed to the success of our business. Maintaining and enhancing the brands of both Google and Other Bets increases our ability to enter new categories and launch new and innovative products that better serve the needs of our users. Our brands may be negatively impacted by a number of factors, including, among others, reputational issues and product/technical performance failures. Further, if we fail to maintain and enhance equity in the Google brand, our business, operating results, and financial condition may be materially and adversely affected. Maintaining and enhancing our brand will depend largely on our ability to remain a technology leader and continue to provide high-quality, innovative products and services that are truly useful and play a meaningful role in people's everyday lives.

A variety of new and existing laws could subject us to claims or otherwise harm our business.

We are subject to numerous U.S. and foreign laws and regulations covering a wide variety of subject matters. New laws and regulations (or new interpretations of existing laws and regulations) may also impact our business. For example, current and new patent laws such as U.S. patent laws and European patent laws may affect the ability of companies, including us, to protect their innovations and defend against claims of patent infringement. The costs of compliance with these laws and regulations are high and are likely to increase in the future.

Claims have been, or may be, threatened and filed against us under both U.S. and foreign laws for defamation, invasion of privacy and other tort claims, unlawful activity, patent, copyright and trademark infringement, product liability, or other theories based on the nature and content of the materials searched and the ads posted by our users, our products and services, or content generated by our users. Furthermore, many of these laws do not contemplate or address the unique issues raised by a number of our new businesses, products, services and technologies. In addition, the applicability and scope of these laws, as interpreted by the courts, remain uncertain. For example, the laws relating to the liability of providers of online services are currently unsettled both within the U.S. and abroad.

In addition, other laws that could subject us to claims or otherwise harm our business include, among others:

- The Digital Millennium Copyright Act, which has provisions that limit in the U.S., but do not necessarily eliminate, our liability for caching or hosting, or for listing or linking to, third-party websites that include materials that infringe copyrights or other rights, so long as we comply with the statutory requirements of this act. Any future legislation impacting these safe harbors may adversely impact us.
- Court decisions such as the 'right to be forgotten' ruling issued by the European court, which allows individuals to demand that Google remove search results about them in certain instances, may limit the content we can show to our users.
- Various U.S. and international laws that restrict the distribution of materials considered harmful to children and impose additional restrictions on the ability of online services to collect information from minors.
- Data protection laws passed by many states that require notification to users when there is a security breach for personal data, such as California's Information Practices Act.

- Data localization laws, which generally mandate that certain types of data collected in a particular country be stored and/or processed within that country.

We face risks and costs overseas as our products and services are offered in international markets and may be subject to additional regulations. Any failure on our part to comply with these laws and regulations can result in negative publicity and diversion of management time and effort and may subject us to significant liabilities and other penalties.

We are, and may in the future be, subject to intellectual property or other claims, which are costly to defend, could result in significant damage awards, and could limit our ability to use certain technologies in the future.

Internet, technology, media, and other companies own large numbers of patents, copyrights, trademarks, and trade secrets and frequently enter into litigation based on allegations of infringement or other violations of intellectual property rights. In addition, patent holding companies may continue to seek to monetize patents they have purchased or otherwise obtained. As we have grown, the intellectual property rights claims against us have increased and may continue to increase as we develop new products, services, and technologies.

We have had patent, copyright, and trademark infringement lawsuits filed against us claiming that certain of our products, services, and technologies infringe the intellectual property rights of others. Third parties have also sought broad injunctive relief against us by filing claims in U.S. and international courts and the U.S. International Trade Commission (ITC) for exclusion and cease and desist orders, which could limit our ability to sell our products or services in the U.S. or elsewhere if our products or services or those of our customers or suppliers are found to infringe the intellectual property subject to the claims. Adverse results in any of these lawsuits may include awards of substantial monetary damages, costly royalty or licensing agreements (if licenses are available at all), or orders preventing us from offering certain features, functionalities, products, or services, and may also cause us to change our business practices, and require development of non-infringing products or technologies, which could result in a loss of revenues for us and otherwise harm our business.

Furthermore, in connection with our divestitures, we have agreed, and may in the future agree, to provide indemnification for certain potential liabilities. In addition, many of our agreements with our customers and partners, including certain suppliers, require us to indemnify them for certain intellectual property infringement claims against them, which could increase our costs as a result of defending such claims, and may require that we pay significant damages if there were an adverse ruling in any such claims. Such customers and partners may also discontinue the use of our products, services, and technologies, as a result of injunctions or otherwise, which could result in loss of revenues and adversely impact our business. Moreover, intellectual property indemnities provided to us by our suppliers, when obtainable, may not cover all damages and losses suffered by us and our customers from covered products.

Regardless of the merits of the claims, intellectual property claims are often time consuming, expensive to litigate or settle, and cause significant diversion of management attention. To the extent such intellectual property infringement claims are successful, they may have an adverse effect on our business, consolidated financial position, results of operations, or cash flows.

Our intellectual property rights are valuable, and any inability to protect them could reduce the value of our products, services, and brand.

Our patents, trademarks, trade secrets, copyrights, and other intellectual property rights are important assets for us. Various events outside of our control pose a threat to our intellectual property rights, as well as to our products, services and technologies. For example, effective intellectual property protection may not be available in every country in which our products and services are distributed or made available through the Internet. Also, the efforts we have taken to protect our proprietary rights may not be sufficient or effective.

Although we seek to obtain patent protection for our innovations, it is possible we may not be able to protect some of these innovations. Moreover, we may not have adequate patent or copyright protection for certain innovations that later turn out to be important. Furthermore, there is always the possibility, despite our efforts, that the scope of the protection gained will be insufficient or that an issued patent may be deemed invalid or unenforceable.

We also seek to maintain certain intellectual property as trade secrets. The secrecy could be compromised by outside parties, or by our employees, which could cause us to lose the competitive advantage resulting from these trade secrets.

We also face risks associated with our trademarks. For example, there is a risk that the word “Google” could become so commonly used that it becomes synonymous with the word “search.” If this happens, we could lose protection for this trademark, which could result in other people using the word “Google” to refer to their own products,

COEX
8.188
thus diminishing our brand.

Any significant impairment of our intellectual property rights could harm our business and our ability to compete. Also, protecting our intellectual property rights is costly and time consuming. Any increase in the unauthorized use of our intellectual property could make it more expensive to do business and harm our operating results.

We may be subject to legal liability associated with providing online services or content.

We host and provide a wide variety of services and products that enable users to exchange information, advertise products and services, conduct business, and engage in various online activities both domestically and internationally. The law relating to the liability of providers of these online services and products for activities of their users is still somewhat unsettled both within the U.S. and internationally. Claims have been threatened and have been brought against us for defamation, negligence, breaches of contract, copyright or trademark infringement, unfair competition, unlawful activity, tort, including personal injury, fraud, or other theories based on the nature and content of information that we publish or to which we provide links or that may be posted online or generated by us or by third parties, including our users. In addition, we are and have been and may again in the future be subject to domestic or international actions alleging that certain content we have generated or third-party content that we have made available within our services violates U.S. and non-U.S. law.

We also arrange for the distribution of third-party advertisements to third-party publishers and advertising networks, and we offer third-party products, services, or content. We may be subject to claims concerning these products, services, or content by virtue of our involvement in marketing, branding, broadcasting, or providing access to them, even if we do not ourselves host, operate, provide, or provide access to these products, services, or content. Defense of any such actions could be costly and involve significant time and attention of our management and other resources, may result in monetary liabilities or penalties, and may require us to change our business in an adverse manner.

Privacy concerns relating to our technology could damage our reputation and deter current and potential users from using our products and services.

From time to time, concerns have been expressed about whether our products, services, or processes compromise the privacy of users and others. Concerns about our practices with regard to the collection, use, disclosure, or security of personal information or other privacy related matters, even if unfounded, could damage our reputation and adversely affect our operating results.

In addition, as nearly all of our products and services are web-based, the amount of data we store for our users on our servers (including personal information) has been increasing. Any systems failure or compromise of our security that results in the release of our users' data could seriously limit the adoption of our products and services, as well as harm our reputation and brand and, therefore, our business. We expect to continue to expend significant resources to protect against security breaches. The risk that these types of events could seriously harm our business is likely to increase as we expand the number of web-based products and services we offer, and operate in more countries.

Regulatory authorities around the world are considering a number of legislative and regulatory proposals concerning data protection, including measures to ensure that our encryption of users' data does not hinder law enforcement agencies' access to that data. In addition, the interpretation and application of consumer and data protection laws in the U.S., Europe and elsewhere are often uncertain and in flux. It is possible that these laws may be interpreted and applied in a manner that is inconsistent with our data practices. If so, in addition to the possibility of fines, this could result in an order requiring that we change our data practices, which could have an adverse effect on our business and results of operations. Complying with these various laws could cause us to incur substantial costs or require us to change our business practices in a manner adverse to our business.

Recent legal developments in Europe have created compliance uncertainty regarding certain transfers of information from Europe to the U.S. A preliminary agreement has been reached between the U.S. and European governments to allow for legal certainty regarding transfers of data. However, given the preliminary nature of the agreement, some uncertainty remains, and compliance obligations could cause us to incur costs or require us to change our business practices in a manner adverse to our business.

If our security measures are breached, or if our services are subject to attacks that degrade or deny the ability of users to access our products and services, our products and services may be perceived as not being secure, users and customers may curtail or stop using our products and services, and we may incur significant legal and financial exposure.

Our products and services involve the storage and transmission of users' and customers' proprietary information,

and security breaches expose us to a risk of loss of this information, litigation, and potential liability. We experience cyber attacks of varying degrees on a regular basis. Our security measures may also be breached due to employee error, malfeasance, system errors or vulnerabilities, or otherwise. Additionally, outside parties may attempt to fraudulently induce employees, users, or customers to disclose sensitive information in order to gain access to our

data or our users' or customers' data. Any such breach or unauthorized access could result in significant legal and financial exposure, damage to our reputation, and a loss of confidence in the security of our products and services that could potentially have an adverse effect on our business. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and often are not recognized until launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. If an actual or perceived breach of our security occurs, the market perception of the effectiveness of our security measures could be harmed and we could lose users and customers.

We face a number of manufacturing and supply chain risks that, if not properly managed, could adversely impact our financial results and prospects.

We face a number of risks related to manufacturing and supply chain management. For instance, the products we sell may have quality issues resulting from the design or manufacture of the product, or from the software used in the product. Sometimes, these issues may be caused by components we purchase from other manufacturers or suppliers. If the quality of our products does not meet our customers' expectations or our products are found to be defective, then our sales and operating earnings, and ultimately our reputation, could be negatively impacted.

We rely on third parties to manufacture many of our assemblies and finished products, and we have third-party arrangements for the design of some components and parts. Our business could be negatively affected if we are not able to engage third parties with the necessary capabilities or capacity on reasonable terms, or if those we engage fail to meet their obligations (whether due to financial difficulties or other reasons), or make adverse changes in the pricing or other material terms of our arrangements with them.

We have in the past, and may experience in the future, supply shortages and price increases driven by raw material availability, manufacturing capacity, labor shortages, industry allocations, natural disasters and significant changes in the financial or business condition of our suppliers. Workaround plans to address shortages could entail increased freight costs for expedited shipments. We may experience shortages or other supply chain disruptions in the future that could negatively impact our operations. In addition, some of the components we use in our products are available only from a single source or limited sources, and we may not be able to find replacement vendors on favorable terms or at all in the event of a supply chain disruption.

Additionally, because many of our supply contracts have volume-based pricing or minimum purchase requirements, if the volume of our hardware sales decreases or does not reach projected targets, we could face increased materials and manufacturing costs or other financial liabilities that could make our hardware products more costly per unit to manufacture and therefore less competitive and negatively impact our financial results. Further, certain of our competitors may negotiate more favorable contractual terms based on volume and other commitments that may provide them with competitive advantages and may impact our supply.

We also require our suppliers and business partners to comply with law and company policies regarding workplace and employment practices, data security, environmental compliance and intellectual property licensing, but we do not control them or their practices. If any of them violates laws or implements practices regarded as unethical, we could experience supply chain disruptions, canceled orders, terminations of or damage to key relationships, and damage to our reputation. If any of them fails to procure necessary license rights to third-party intellectual property, legal action could ensue that could impact the saleability of our products and expose us to financial obligations to third parties.

The Dodd-Frank Wall Street Reform and Consumer Protection Act includes disclosure requirements regarding the use of certain minerals mined from the Democratic Republic of Congo and adjoining countries (DRC) and procedures pertaining to a manufacturer's efforts regarding the source of such minerals. SEC rules implementing these requirements may have the effect of reducing the pool of suppliers who can supply DRC "conflict free" components and parts, and we may not be able to obtain DRC conflict free products or supplies in sufficient quantities for our operations. Since our supply chain is complex, we may face reputational challenges with our customers, stockholders and other stakeholders if we are unable to sufficiently verify the origins for the minerals used in our products.

Web spam and content farms could decrease our search quality, which could damage our reputation and deter our current and potential users from using our products and services.

"Web spam" refers to websites that attempt to violate a search engine's quality guidelines or that otherwise seek to rank higher in search results than a search engine's assessment of their relevance and utility would rank them.

Although English-language web spam in our search results has been significantly reduced, and web spam in most

COEX
8.188

other languages is limited, we expect web spammers will continue to seek ways to improve their rankings inappropriately. We continuously combat web spam, including through indexing technology that makes it harder for spam-like, less useful web content to rank highly. We face challenges from low-quality and irrelevant content websites, including “content farms”, which are websites that generate large quantities of low-quality content to help them improve

their search rankings. We are continually launching algorithmic changes focused on low-quality websites. If our search results display an increasing number of web spam and content farms, this could hurt our reputation for delivering relevant information or reduce user traffic to our websites. In addition, as we continue to take actions to improve our search quality and reduce low-quality content, this may in the short run reduce our AdSense revenues, since some of these websites are AdSense partners.

Interruption or failure of our information technology and communications systems could hurt our ability to effectively provide our products and services, which could damage our reputation and harm our operating results.

The availability of our products and services depends on the continuing operation of our information technology and communications systems. Our systems are vulnerable to damage or interruption from earthquakes, terrorist attacks, natural disasters, the effects of climate change (such as sea level rise, drought, flooding, wildfires, and increased storm severity), power loss, telecommunications failures, computer viruses, computer denial of service attacks, or other attempts to harm our systems. Some of our data centers are located in areas with a high risk of major earthquakes. Our data centers are also subject to break-ins, sabotage, and intentional acts of vandalism, and to potential disruptions if the operators of certain of these facilities have financial difficulties. Some of our systems are not fully redundant, and our disaster recovery planning cannot account for all eventualities. The occurrence of a natural disaster, a decision to close a facility we are using, or other unanticipated problems at our data centers could result in lengthy interruptions in our service. In addition, our products and services are highly technical and complex and may contain errors or vulnerabilities, which could result in interruptions in our services or the failure of our systems.

Our international operations expose us to additional risks that could harm our business, operating results, and financial condition.

Our international operations are significant to our revenues and net income, and we plan to continue to grow internationally. International revenues accounted for approximately 54% of our consolidated revenues in 2015. In certain international markets, we have limited operating experience and may not benefit from any first-to-market advantages or otherwise succeed.

In addition to risks described elsewhere in this section, our international operations expose us to other risks, including the following:

- Changes in local political, economic, regulatory, tax, social, and labor conditions, which may adversely harm our business.
- Restrictions on foreign ownership and investments, and stringent foreign exchange controls that might prevent us from repatriating cash earned in countries outside the U.S.
- Import and export requirements, tariffs, trade disputes and barriers, and customs classifications that may prevent us from offering products or providing services to a particular market and may increase our operating costs.
- Longer payment cycles in some countries, increased credit risk, and higher levels of payment fraud.
- Still developing foreign laws and legal systems.
- Uncertainty regarding liability for services and content, including uncertainty as a result of local laws and lack of legal precedent.
- Different employee/employer relationships, existence of workers' councils and labor unions, and other challenges caused by distance, language, and cultural differences, making it harder to do business in certain jurisdictions.

In addition, compliance with complex foreign and U.S. laws and regulations that apply to our international operations increases our cost of doing business. These numerous and sometimes conflicting laws and regulations include internal control and disclosure rules, privacy and data protection requirements, anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act, and other local laws prohibiting corrupt payments to governmental officials, and competition regulations, among others. Violations of these laws and regulations could result in fines and penalties, criminal sanctions against us, our officers, or our employees, prohibitions on the conduct of our business and on our ability to offer our products and services in one or more countries, and could also materially affect our brand, our international growth efforts, our ability to attract and retain employees, our business, and our operating results. Although we have

implemented policies and procedures designed to ensure compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate our policies.

Finally, since we conduct business in currencies other than U.S. dollars but report our financial results in U.S. dollars, we face exposure to fluctuations in currency exchange rates. Although we hedge a portion of our international currency exposure, significant fluctuations in exchange rates between the U.S. dollar and foreign currencies may adversely affect our revenues and earnings. Additionally, hedging programs are inherently risky and could expose us to additional risks that could adversely affect our financial condition and results of operations.

Our operating results may fluctuate, which makes our results difficult to predict and could cause our results to fall short of expectations.

Our operating results may fluctuate as a result of a number of factors, many outside of our control. As a result, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly, year-to-date, and annual expenses as a percentage of our revenues may differ significantly from our historical or projected rates. Our operating results in future quarters may fall below expectations. Any of these events could cause our stock price to fall. Each of the risk factors listed in this section in addition to the following factors may affect our operating results:

- Our ability to continue to attract users to our websites and retain existing users on our websites.
- Our ability to monetize (or generate revenues from) traffic on Google websites and our Google Network Members' websites both on desktop and mobile devices.
- Revenue fluctuations caused by changes in property mix, platform mix, and geographical mix.
- The amount of revenues and expenses generated and incurred in currencies other than U.S. dollars, and our ability to manage the resulting risk through our foreign exchange risk management program.
- The amount and timing of operating costs and expenses and capital expenditures related to the maintenance and expansion of our businesses, operations, and infrastructure.
- Our focus on long-term goals over short-term results.
- The results of our acquisitions and our investments in risky projects, including new businesses, products, services, and technologies.
- Our ability to keep our websites operational at a reasonable cost and without service interruptions.
- Our ability to generate significant revenues from new products and services in which we have invested considerable time and resources.

Because our business is changing and evolving, our historical operating results may not be useful to you in predicting our future operating results. In addition, advertising spending has historically been cyclical in nature, reflecting overall economic conditions, as well as budgeting and buying patterns. Also, user traffic tends to be seasonal. Our rapid growth has tended to mask the cyclicality and seasonality of our business. As our growth rate has slowed, the cyclicality and seasonality in our business has become more pronounced and caused our operating results to fluctuate.

If we were to lose the services of Larry, Sergey, Eric, Sundar, or other key personnel, we may not be able to execute our business strategy.

Our future success depends in a large part upon the continued service of key members of our senior management team. In particular, Larry Page and Sergey Brin are critical to the overall management of Alphabet and its subsidiaries, and they, along with Sundar Pichai, the Chief Executive Officer of Google, play an important role in the development of our technology. Along with our Executive Chairman Eric E. Schmidt, they also play a key role in maintaining our culture and setting our strategic direction. All of our executive officers and key employees are at-will employees, and we do not maintain any key-person life insurance policies. The loss of key personnel could seriously harm our business.

We rely on highly skilled personnel and, if we are unable to retain or motivate key personnel, hire qualified personnel, or maintain our corporate culture, we may not be able to grow effectively.

Our performance largely depends on the talents and efforts of highly skilled individuals. Our future success depends on our continuing ability to identify, hire, develop, motivate, and retain highly skilled personnel for all areas of our organization. Competition in our industry for qualified employees is intense, and certain of our competitors have directly targeted our employees. In addition, our compensation arrangements, such as our equity award programs, may not always be successful in attracting new employees and retaining and motivating our existing employees. Our

continued ability to compete effectively depends on our ability to attract new employees and to retain and motivate our existing employees.

In addition, we believe that our corporate culture fosters innovation, creativity, and teamwork. As our organization grows, and we are required to implement more complex organizational management structures, particularly in light of our holding company reorganization and new operating structure, we may find it increasingly difficult to maintain the beneficial aspects of our corporate culture. This could negatively impact our future success.

Our business depends on continued and unimpeded access to the Internet by us and our users. Internet access providers may be able to restrict, block, degrade, or charge for access to certain of our products and services, which could lead to additional expenses and the loss of users and advertisers.

Our products and services depend on the ability of our users to access the Internet, and certain of our products require significant bandwidth to work effectively. Currently, this access is provided by companies that have significant market power in the broadband and internet access marketplace, including incumbent telephone companies, cable companies, mobile communications companies, and government-owned service providers. Some of these providers have taken, or have stated that they may take measures, including legal actions, that could degrade, disrupt, or increase the cost of user access to certain of our products by restricting or prohibiting the use of their infrastructure to support or facilitate our offerings, or by charging increased fees to us or our users to provide our offerings. In addition, in some jurisdictions, our products and services have been subject to government-initiated restrictions or blockages. Such interference could result in a loss of existing users and advertisers, and increased costs, and could impair our ability to attract new users and advertisers, thereby harming our revenues and growth.

New technologies could block online ads, which would harm our Google business.

Technologies have been developed that can block the display of our ads and that provide tools to users to opt out of our advertising products. Most of our Google revenues are derived from fees paid to us by advertisers in connection with the display of ads on web pages for our users. As a result, such technologies and tools could adversely affect our operating results.

We are exposed to fluctuations in the market values of our investments.

Given the global nature of our business, we have investments both domestically and internationally. Credit ratings and market values of these investments can be negatively impacted by liquidity, credit deterioration or losses, financial results, foreign exchange rates, or other factors. As a result, the value or liquidity of our cash equivalents and marketable securities could decline and result in a material impairment, which could materially adversely affect our financial condition and operating results.

We may have exposure to greater than anticipated tax liabilities.

Our future income taxes could be adversely affected by earnings being lower than anticipated in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, the net gains and losses recognized by legal entities on certain hedges and related hedged intercompany and other transactions under our foreign exchange risk management program, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items. We are subject to regular review and audit by both domestic and foreign tax authorities. As a result, we have received, and may in the future receive, assessments in multiple jurisdictions on various tax-related assertions, including transfer pricing adjustments or permanent establishment. Any adverse outcome of such a review or audit could have a negative effect on our operating results and financial condition. In addition, the determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment, and there are many transactions and calculations where the ultimate tax determination is uncertain. Although we believe our estimates are reasonable, the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

Risks Related to Ownership of Our Stock

The trading price for our Class A common stock and non-voting Class C capital stock may continue to be volatile.

The trading price of our stock has at times experienced substantial price volatility and may continue to be volatile. For example, from January 1, 2015 through December 31, 2015, the closing price of our Class A common stock ranged from $497.06 per share to $793.96 per share, and the closing price of our Class C capital stock ranged from $492.55 to $776.60 per share.

The trading price of our Class A common stock and Class C capital stock may fluctuate widely in response to

COEX
8.188

various factors, some of which are beyond our control. These factors include, among others:

- Quarterly variations in our results of operations or those of our competitors.

- Announcements by us or our competitors of acquisitions, new products, significant contracts, commercial relationships, or capital commitments.
- Recommendations by securities analysts or changes in earnings estimates.
- Announcements about our earnings that are not in line with analyst expectations, the risk of which is enhanced because it is our policy not to give guidance on earnings.
- Announcements by our competitors of their earnings that are not in line with analyst expectations.
- Commentary by industry and market professionals about our products, strategies, and other matters affecting our business and results, regardless of its accuracy.
- The volume of shares of Class A common stock and Class C capital stock available for public sale.
- Sales of Class A common stock and Class C capital stock by us or by our stockholders (including sales by our directors, executive officers, and other employees).
- Short sales, hedging, and other derivative transactions on shares of our Class A common stock and Class C capital stock.
- The perceived values of Class A common stock and Class C capital stock relative to one another.
- Our stock repurchase program.

In addition, the stock market in general, and the market for technology companies in particular, have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of those companies. These broad market and industry factors may harm the market price of our Class A common stock and our Class C capital stock regardless of our actual operating performance.

We cannot guarantee that our recently announced stock repurchase program will be fully consummated or that our stock repurchase program will enhance long-term stockholder value, and stock repurchases could increase the volatility of the price of our stock and could diminish our cash reserves.

In October 2015, our board of directors authorized our company to repurchase up to $5,099,019,513.59 of our Class C capital stock and in January 2016, our board of directors authorized our Company to repurchase an additional amount of approximately 514 thousand shares. The repurchase program does not have an expiration date. Although our board of directors has authorized a stock repurchase program, the share repurchase program does not obligate Alphabet to repurchase any specific dollar amount or to acquire any specific number of shares. The stock repurchase program could affect the price of our stock and increase volatility and may be suspended or terminated at any time, which may result in a decrease in the trading price of our stock.

The concentration of our stock ownership limits our stockholders' ability to influence corporate matters.

Our Class B common stock has 10 votes per share, our Class A common stock has one vote per share, and our Class C capital stock has no voting rights. As of December 31, 2015, Larry, Sergey, and Eric beneficially owned approximately 92.5% of our outstanding Class B common stock, which represented approximately 58.5% of the voting power of our outstanding capital stock. Larry, Sergey, and Eric therefore have significant influence over management and affairs and over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or our assets, for the foreseeable future. In addition, because our Class C capital stock carries no voting rights (except as required by applicable law), the issuance of the Class C capital stock, including in future stock-based acquisition transactions and to fund employee equity incentive programs, could prolong the duration of Larry and Sergey's current relative ownership of our voting power and their ability to elect all of our directors and to determine the outcome of most matters submitted to a vote of our stockholders. Together with Eric, they would also continue to be able to control any required stockholder vote with respect to certain change in control transactions involving Alphabet (including an acquisition of Alphabet by another company).

This concentrated control limits or severely restricts our stockholders' ability to influence corporate matters and, as a result, we may take actions that our stockholders do not view as beneficial. As a result, the market price of our Class A common stock and our Class C capital stock could be adversely affected.

Provisions in our charter documents and under Delaware law could discourage a takeover that stockholders may consider favorable.

Provisions in Alphabet's certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

- Our certificate of incorporation provides for a tri-class capital stock structure. As a result of this structure, Larry, Sergey, and Eric have significant influence over all matters requiring stockholder approval, including the election of directors and significant corporate transactions, such as a merger or other sale of our company or our assets. This concentrated control could discourage others from initiating any potential merger, takeover, or other change of control transaction that other stockholders may view as beneficial. As noted above, the issuance of the Class C capital stock could have the effect of prolonging the influence of Larry, Sergey, and Eric.
- Our board of directors has the right to elect directors to fill a vacancy created by the expansion of the board of directors or the resignation, death, or removal of a director, which prevents stockholders from being able to fill vacancies on our board of directors.
- Our stockholders may not act by written consent. As a result, a holder, or holders, controlling a majority of our capital stock would not be able to take certain actions without holding a stockholders' meeting.
- Our certificate of incorporation prohibits cumulative voting in the election of directors. This limits the ability of minority stockholders to elect director candidates.
- Stockholders must provide advance notice to nominate individuals for election to the board of directors or to propose matters that can be acted upon at a stockholders' meeting. These provisions may discourage or deter a potential acquirer from conducting a solicitation of proxies to elect the acquirer's own slate of directors or otherwise attempting to obtain control of our company.
- Our board of directors may issue, without stockholder approval, shares of undesignated preferred stock. The ability to issue undesignated preferred stock makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us.

As a Delaware corporation, we are also subject to certain Delaware anti-takeover provisions. Under Delaware law, a corporation may not engage in a business combination with any holder of 15% or more of its outstanding voting stock unless the holder has held the stock for three years or, among other things, the board of directors has approved the transaction. Our board of directors could rely on Delaware law to prevent or delay an acquisition of us.

Risks Related to Our Holding Company Reorganization

As a holding company, Alphabet will be dependent on the operations and funds of its subsidiaries.

On October 2, 2015, we completed a reorganization pursuant to which Alphabet became a holding company with no business operations of its own. Alphabet's only significant assets are the outstanding equity interests in Google and any other future subsidiaries of Alphabet. As a result, we rely on cash flows from subsidiaries to meet our obligations, including to service any debt obligations of Alphabet.

We may not obtain the anticipated benefits of our reorganization into a holding company structure.

We believe that our holding company reorganization and a new operating structure will increase management scale and allow us to focus on running our diverse businesses independently with the goal of maximizing each of the business' potential. The anticipated benefits of this reorganization may not be obtained if circumstances prevent us from taking advantage of the strategic and business opportunities that we expect it may afford us. As a result, we may incur the costs of a holding company structure without realizing the anticipated benefits, which could adversely affect our reputation, financial condition, and operating results.

Alphabet's management is dedicating significant effort to the new operating structure. These efforts may divert management's focus and resources from Alphabet's business, corporate initiatives, or strategic opportunities, which could have an adverse effect on our businesses, results of operations, financial condition, or prospects. Additionally, our subsidiaries may be restricted in their ability to pay cash dividends or to make other distributions to Alphabet, as the new holding company.

ITEM 1B. UNRESOLVED STAFF COMMENTS

There are no unresolved staff comments at December 31, 2015.

ITEM 2. PROPERTIES

Our headquarters are located in Mountain View, California, where we own approximately 4.8 million square feet of

COEX
8.188

office and building space and approximately fifteen acres of developable land to accommodate anticipated future growth. In addition, we own and lease office and building space, research and development, and sales and support offices primarily in North America, Europe, South America, and Asia. We operate and own data centers in the U.S.,

Europe, South America, and Asia pursuant to various lease agreements and co-location arrangements. We believe our existing facilities, both owned and leased, are in good condition and suitable for the conduct of our business.

ITEM 3. LEGAL PROCEEDINGS

For a description of our material pending legal proceedings, please see Note 11 “Commitments and Contingencies - Legal Matters” of the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K, which is incorporated herein by reference.

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

During the fourth quarter of 2015, Alphabet Inc. became the successor issuer of Google Inc. pursuant to Rule 12g-3(a) under the Exchange Act as of October 2, 2015.

Price Range of Common Stock and Capital Stock

Our Class A common stock has been listed on the Nasdaq Global Select Market under the symbol “GOOG” since August 19, 2004 and under the symbol "GOOGL" since April 3, 2014. Prior to August 19, 2004, there was no public market for our stock. The following table sets forth for the indicated periods the high and low sales prices per share for our Class A common stock on the Nasdaq Global Select Market.

Fiscal Year 2015 Quarters Ended:	High	Low
March 31, 2015	$ 581.44	$ 497.06
June 30, 2015	573.66	532.74
September 30, 2015	699.62	541.70
December 31, 2015	793.96	642.00

Fiscal Year 2014 Quarters Ended:	High	Low
March 31, 2014	$ 610.70	$ 551.17
June 30, 2014	585.93	518.00
September 30, 2014	605.40	571.81
December 31, 2014	587.78	498.16

Our Class B common stock is neither listed nor traded.

Our Class C capital stock has been listed on the Nasdaq Global Select Market under the symbol “GOOG” since April 3, 2014. Prior to that time, there was no public market for our Class C capital stock. The following table sets forth for the indicated periods the high and low sales prices per share for our Class C capital stock on the Nasdaq Global Select Market.

Fiscal Year 2015 Quarters Ended:	High	Low
March 31, 2015	$ 575.33	$ 492.55
June 30, 2015	565.06	520.51
September 30, 2015	672.93	516.83
December 31, 2015	776.60	611.29

Fiscal Year 2014 Quarters Ended:	High	Low

COEX
8.188

March 31, 2014	$ —	$ —
June 30, 2014	578.65	509.96
September 30, 2014	596.08	562.73
December 31, 2014	577.35	495.39

Holders of Record

As of December 31, 2015, there were approximately, 2,279 and 2,173 stockholders of record of our Class A common stock and Class C capital stock, respectively, and the closing prices of our Class A common stock and Class C capital stock were $778.01 and $758.88 per share, respectively, as reported by the NASDAQ Global Select Market. Because many of our shares of Class A common stock and Class C capital stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders. As of December 31, 2015, there were approximately 68 stockholders of record of our Class B common stock.

Dividend Policy

We have never declared or paid any cash dividend on our common or capital stock. We intend to retain any future earnings and do not expect to pay any cash dividends in the foreseeable future.

Issuer Purchases of Equity Securities

The following table presents information with respect to Alphabet's repurchases of Class C capital stock during the quarter ended December 31, 2015.

Period	Total Number of Shares Purchased (in thousands) [1]	Average Price Paid per Share [2]	Total Number of Shares Purchased as Part of Publicly Announced Programs (in thousands) [1]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Program (in millions)
October 1 - 31	0	$ 0.00	0	$ 5,099
November 1 - 30	1,500	$ 737.72	1,500	$ 3,934
December 1 - 31	891	$ 757.04	891	$ 3,319
Total	2,391	$ 744.68	2,391	

(1) In October 2015, the board of directors of Alphabet authorized the company to repurchase up to $5,099,019,513.59 of its Class C capital stock, commencing in the fourth quarter of 2015. The repurchases are being executed from time to time, subject to general business and market conditions and other investment opportunities, through open market purchases or privately negotiated transactions, including through the use of 10b5-1 plans. The repurchase program does not have an expiration date. Refer to Note 13 in Part II, Item 8 of this Annual Report on Form 10-K for additional information related to share repurchases.

(2) Average price paid per share includes costs associated with the repurchases.

Unregistered Sales of Equity Securities

On December 17, 2015, we issued an aggregate of approximately 514 thousand shares of our Class C capital stock in connection with our acquisition of bebop Technologies, Inc. The issuance of our shares was made in reliance upon an exemption from the registration requirements of the Securities Act provided by Regulation D.

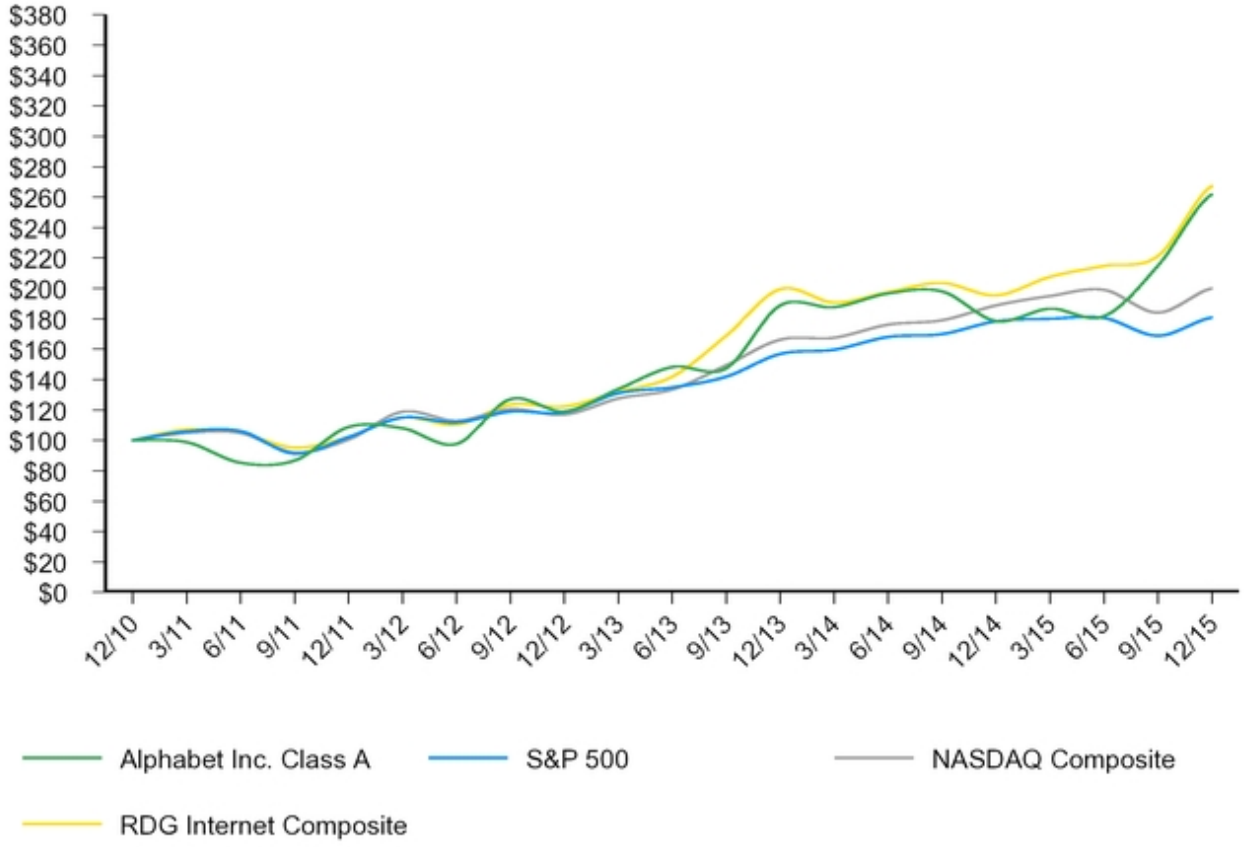
Stock Performance Graph

The following graph compares the 5-year cumulative total return to shareholders on Alphabet Inc.'s common stock relative to the cumulative total returns of the S&P 500 index, the RDG Internet Composite index, and the NASDAQ Composite index. An investment of $100 (with reinvestment of all dividends) is assumed to have been made in the company's Class A common stock, Class C capital stock, and in each index on December 31, 2010 and its relative performance is tracked through December 31, 2015. The returns shown are based on historical results and are not intended to suggest future performance.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN*

Among Alphabet Inc., the S&P 500 Index, the

NASDAQ Composite Index, and the RDG Internet Composite Index



*$100 invested on December 31, 2010 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

Copyright© 2015 S&P, a division of The McGraw-Hill Companies Inc. All rights reserved.

This performance graph shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or incorporated by reference into any filing of Alphabet under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data should be read in conjunction with Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and the related notes appearing in Item 8 “Financial Statements and Supplementary Data” of this Annual Report on Form 10-K. The historical results are not necessarily indicative of the results to be expected in any future period.

The consolidated statements of income data of Alphabet and Google were as follows for the periods presented:

	Year Ended December 31,				
	2011[1]	2012[1]	2013[1]	2014[1]	2015
	(in millions)				
Consolidated Statements of Income Data:					
Revenues	$ 37,905	$ 46,039	$ 55,519	$ 66,001	$ 74,989
Income from operations	11,742	13,834	15,403	16,496	19,360
Net income from continuing operations	9,706	11,435	13,160	13,620	16,348
Net income (loss) from discontinued operations	0	(816)	(427)	516	0
Net income	9,706	10,619	12,733	14,136	16,348

(1) In the second quarter of 2015, we identified an incorrect classification of certain revenues between legal entities, and as a consequence, we revised our income tax expense for periods beginning in 2008 through the first quarter of 2015. Please refer to Note 1 and Note 17 of the Notes to Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K.

The basic and diluted income per share data as included on the consolidated statements of income of Alphabet were as follows for the periods presented (not required for Google pursuant to Rule 12g-3(a)):

	Year Ended December 31,				
	2011[1]	2012[1]	2013[1]	2014[1]	2015
	(in millions, except per share amounts)				
Basic net income (loss) per share of Class A and B common stock:					
Continuing operations	$ 15.04	$ 17.47	$ 19.77	$ 20.15	$ 23.11
Discontinued operations	0.00	(1.25)	(0.64)	0.76	0.00
Basic net income per share of Class A and B common stock	$ 15.04	$ 16.22	$ 19.13	$ 20.91	$ 23.11
Basic net income (loss) per share of Class C capital stock:					
Continuing operations	$ 15.04	$ 17.47	$ 19.77	$ 20.15	$ 24.63
Discontinued operations	0.00	(1.25)	(0.64)	0.76	0.00
Basic net income per share of Class C capital stock	$ 15.04	$ 16.22	$ 19.13	$ 20.91	$ 24.63
Diluted net income (loss) per share of Class A and B common stock:					
Continuing operations	$ 14.83	$ 17.21	$ 19.42	$ 19.82	$ 22.84
Discontinued operations	0.00	(1.23)	(0.63)	0.75	0.00
Diluted net income per share of Class A and B common stock	$ 14.83	$ 15.98	$ 18.79	$ 20.57	$ 22.84
Diluted net income (loss) per share of Class C capital stock:					
Continuing operations	$ 14.83	$ 17.21	$ 19.42	$ 19.82	$ 24.34
Discontinued operations	0.00	(1.23)	(0.63)	0.75	0.00

COEX
8.188

Diluted net income per share of Class C capital stock	$ 14.83	$ 15.98	$ 18.79	$ 20.57	$ 24.34

(1) In the second quarter of 2015, we identified an incorrect classification of certain revenues between legal entities, and as a consequence, we revised our income tax expense for periods beginning in 2008 through the first quarter of 2015. Please refer to Note 1 and Note 17 of the Notes to Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K

The consolidated balance sheets of Alphabet and Google were as follows for the periods presented:

	As of December 31,				
	2011[1][2]	2012[1][2]	2013[1][2]	2014[1][2]	2015
	(in millions)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents, and marketable securities	$ 44,626	$ 48,088	$ 58,717	$ 64,395	$ 73,066
Total assets	72,359	92,711	109,050	129,187	147,461
Total long-term liabilities	5,294	6,662	6,165	8,548	7,820
Total stockholders' equity	58,118	71,570	86,977	103,860	120,331

(1) In the second quarter of 2015, we identified an incorrect classification of certain revenues between legal entities, and as a consequence, we revised our income tax expense for periods beginning in 2008 through the first quarter of 2015. Please refer to Note 1 and Note 17 of the Notes to Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K.

(2) Includes reclassifications of deferred tax assets and liabilities related to ASU 2015-17 "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes." Please refer to Note 1 of the Notes to Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Please read the following discussion and analysis of our financial condition and results of operations together with our consolidated financial statements and related notes included under Item 8 of this Annual Report on Form 10-K.

Trends in Our Business

The following trends have contributed to the results of our consolidated operations, and we anticipate that they will continue to impact our future results:

- **Users' behaviors and advertising continue to shift online as the digital economy evolves.**

The continuing shift from an offline to online world has contributed to the growth of our business since inception, resulting in increasing revenues, and we expect that this online shift will continue to benefit our business.

- **As online advertising evolves, we continue to expand our product offerings which may impact our monetization.**

As interactions between users and advertisers change, we continue to expand our product offerings to serve their changing needs. Over time, we expect our monetization trends to fluctuate. For example, we have seen an increase in YouTube engagement ads, which monetize at a lower rate than traditional search desktop ads. Additionally, advertisers are beginning to shift to programmatic buying which presents opportunities for advertisers to connect with the right user, in the right moment, in the right context. This may also have different monetization profiles to our existing advertising business. These trends will continue to affect our monetization in the future.

- **Users are increasingly using multiple devices to access our products and services, and our advertising revenues are increasingly coming from mobile phones and other new formats.**

Our users are accessing the Internet via multiple devices. Mobile computing power continues to grow and users want to feel connected no matter where they are or what they are doing. We seek to expand our products and services to stay in front of this shift in order to maintain and grow our business.

In this multi-device world, we generate our advertising revenues increasingly from mobile phones and newer advertising formats, and the margins from the advertising revenues from these sources have generally been lower than those from desktop computers and tablets. Our traffic acquisition cost (TAC) may also be impacted because the rates at which we share mobile revenues with our partners may differ from our traditional desktop and tablet formats. We expect both of these trends to continue to put pressure on our overall margins, particularly if we fail to realize the opportunities presented during the transition to a dynamic multi-screen environment.

- **As users in developing economies increasingly come online, we generate increasing revenues from international markets, and movements in foreign exchange rates impact such revenues.**

The shift to online, as well as the advent of the multi-device world, has brought opportunities outside of the U.S., especially in emerging markets, and we continue to develop localized versions of our products and relevant advertising programs useful to our users in these markets. This has led to a trend of increased revenues from international markets over time and we expect that our results will continue to be impacted by our performance in these markets, particularly as low-cost mobile devices become more available.

Our international revenues represent a significant proportion of our revenues and are subject to fluctuations in foreign currency exchange rates relative to the U.S. dollar. While we have a foreign exchange risk management program designed to reduce our exposure to these fluctuations, this program does not fully offset their effect on our revenues and earnings.

- **The portion of our revenues that we derive from non-advertising revenues is increasing.**

Non-advertising revenues have grown over time. We expect this trend to continue as we focus on expanding our Google offerings to our users through products like Google Play, cloud and apps and hardware products. Across these initiatives, we currently derive non-advertising revenues primarily from sales of digital content products, hardware sales, service and licensing fees; the margins on these non-advertising businesses vary significantly and may be lower than the margins on our advertising business. A number of our Other Bets initiatives are in their initial development stages, and as such, the sources of revenues from these businesses could change over time and the revenues themselves could be volatile.

- **As we continue to look for new ways to serve our users and expand our businesses, we will invest heavily in R&D and our capital expenditures will continue to fluctuate.**

We continue to make significant research and development (R&D) investments in areas of strategic focus for Google, such as search and advertising, as well as in new products and services across both Google and Other Bets. The amount of our capital expenditures has fluctuated and may continue to fluctuate in the long term as we invest heavily in our systems, data centers, real estate and facilities, and information technology infrastructure.

In addition, acquisitions remain an important part of our strategy and use of capital, and we expect to continue to spend cash on acquisitions and other investments. These acquisitions generally enhance the breadth and depth of our offerings, as well as expanding our expertise in engineering and other functional areas.

- **Our employees are critical to our success and we expect to continue investing in them.**

Our employees are among our best assets and are critical for our continued success. Their energy and talent drive Alphabet and create our success. We expect to continue hiring talented employees and to provide competitive compensation programs to our employees. As of December 31, 2015, we had 61,814 full-time employees: 23,336 in research and development, 19,082 in sales and marketing, 10,944 in operations, and 8,452 in general and administrative, an increase of 8,214 total headcount from December 31, 2014.

Executive Overview of Results

Here are our key financial results for the fiscal year ended December 31, 2015 (consolidated unless otherwise noted):

- Revenues of $75.0 billion and revenue growth of 14% year over year, constant currency revenue growth of 20% year over year.
- Google segment revenues of $74.5 billion with revenue growth of 14% and Other Bets revenues of $0.4 billion.
- Revenues from the United States, the United Kingdom, and Rest of World were $34.8 billion, $7.1 billion, and $33.1 billion, respectively.
- Cost of revenues was $28.2 billion, consisting of traffic acquisition costs of $14.4 billion and other cost of revenues of $13.8 billion. Our traffic acquisition costs as a percentage of advertising revenues was 21%.
- Operating expenses (excluding cost of revenues) were $27.5 billion.
- Income from operations was $19.4 billion.
- Effective tax rate of 17%.
- Net income was $16.3 billion with diluted net income per share for Class A and B common stock of $22.84 and for Class C capital stock of $24.34.

COEX
8.188

- Operating cash flow was $26.0 billion.
- Capital expenditures were $9.9 billion.

- Headcount was 61,814 as of December 31, 2015.

Information about Segments

In conjunction with the Alphabet reorganization, in the fourth quarter of 2015, we implemented legal and operational changes in how our Chief Operating Decision Maker (CODM) manages our businesses, including resource allocation and performance assessment. Consequently, we have multiple operating segments, representing the individual businesses that are run separately under the Alphabet structure.

Google is our only reportable segment. None of our other segments meet the quantitative thresholds to qualify as reportable segments; therefore, the operating segments are combined and disclosed below as Other Bets. All prior-period amounts have been adjusted retrospectively to reflect the reportable segment change.

Our reported segments are described below:

- Google – Google includes our main internet products such as Search, Ads, Commerce, Maps, YouTube, Apps, Cloud, Android, Chrome, Google Play as well as hardware products we sell, such as Chromecast, Chromebooks and Nexus. Our technical infrastructure and newer efforts like Virtual Reality are also included in Google.
- Other Bets – Other Bets is a combination of multiple operating segments that are not individually material. Other Bets includes businesses such as Access/Google Fiber, Calico, Nest, Verily, GV, Google Capital, X, and other initiatives.

Please refer to Note 16 of the Notes to Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K for further information.

Consolidated Results of Operations

The following table presents our operating results as a percentage of revenues for the periods presented:

	Year Ended December 31,		
	2013[1][2]	2014[1][2]	2015
Consolidated Statements of Income Data:			
Revenues	100.0 %	100.0%	100.0%
Costs and expenses:			
Cost of revenues	39.6	38.9	37.6
Research and development	12.9	14.9	16.3
Sales and marketing	11.8	12.3	12.1
General and administrative	8.0	8.9	8.2
Total costs and expenses	72.3 %	75.0%	74.2%
Income from operations	27.7	25.0	25.8
Other income (expense), net	0.9	1.1	0.4
Income from continuing operations before income taxes	28.6	26.1	26.2
Provision for income taxes	4.9	5.5	4.4
Net income from continuing operations	23.7	20.6	21.8
Net income (loss) from discontinued operations	(0.8)	0.8	0.0
Net income	22.9 %	21.4%	21.8%

(1) Financial results of Motorola Home were included in net income (loss) from discontinued operations for the year ended December 31, 2013. Financial results of Motorola Mobile were included in net income (loss) from discontinued operations for the years ended December 31, 2013 and 2014.

(2) In the second quarter of 2015, we identified an incorrect classification of certain revenues between legal entities, and as a consequence, we revised our income tax expense for periods beginning in 2008 through the first quarter of 2015. Please refer to Note 1 and Note 17 of the Notes to Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K.

Consolidated Revenues

The following table presents our consolidated revenues, by segment and revenue source (in millions), for the periods presented:

	Year Ended December 31,		
	2013	2014	2015
Google segment			
Google websites	$ 37,422	$ 45,085	$ 52,357
Google Network Members' websites [1]	13,650	14,539	15,033
Google advertising revenues	51,072	59,624	67,390
Google other revenues [1]	4,435	6,050	7,151
Google segment revenues	$ 55,507	$ 65,674	$ 74,541
Other Bets			
Other Bets revenues	$ 12	$ 327	$ 448
Consolidated revenues	$ 55,519	$ 66,001	$ 74,989

[1] Prior period amounts have been adjusted to reflect the reclassification primarily related to DoubleClick ad serving software revenues from Google other revenues to Advertising Revenues from Google Network Members' websites to conform with the current period presentation.

Google segment

The following table presents our Google segment revenues (in millions), those revenues expressed as a percentage of consolidated revenues, and changes in our aggregate paid clicks and cost-per-click (expressed as a percentage) for the periods presented:

	Year Ended December 31,		
	2013	2014	2015
Google segment revenues	$ 55,507	$ 65,674	$ 74,541
Google segment revenues as a percentage of consolidated revenues	100.0%	99.5 %	99.4 %
Aggregate paid clicks change		20 %	22 %
Aggregate cost-per-click change		(5)%	(11)%

Use of Monetization Metrics

When assessing our advertising revenue performance, we present information regarding the number of "paid clicks" and "cost-per-click" for our Google websites and Google Network Members websites. Management views these as important metrics for understanding our business. We periodically review, refine and update our methodologies for monitoring, gathering, and counting the number of paid clicks and for identifying the revenues generated by click activity.

Paid clicks for our Google websites represent engagement by users and include clicks on advertisements by end-users related to searches on Google.com, clicks related to advertisements on other owned and operated properties including Gmail, Finance, Maps, and Google Play; and viewed YouTube engagement ads like TrueView (counted as an engagement when the user chooses not to skip the ad). Paid clicks for our Google Network Members' websites include clicks by end-users related to advertisements served on Google Network Members' properties participating in our AdSense for Search, AdSense for Content and AdMob businesses. In some cases, such as programmatic and reservation based advertising buying, we charge advertisers by impression; while growing, this represents a small part of our revenue base.

Cost-per-click is defined as click-driven revenue divided by our total number of paid clicks and represents the

average cost of each engagement by users we charge advertisers.

The rate of change in revenue and revenue growth, as well as the rate of change in paid clicks and cost-per-click on Google websites and Google Network Members' websites and their correlation with the rate of change in revenues, has fluctuated and may fluctuate in the future because of various factors, including:

- growth rates of our revenues from Google websites, including YouTube, compared to those of our revenues from Google Network Members' websites;
- advertiser competition for keywords;
- changes in foreign currency exchange rates;
- seasonality;
- the fees advertisers are willing to pay based on how they manage their advertising costs;
- changes in advertising quality or formats;
- traffic growth in emerging markets compared to more mature markets and across various advertising verticals and channels;
- a shift in the proportion of non-click based revenue generated in Google websites and Google Network Members' websites, including an increase in programmatic and reservation based advertising buying; and
- general economic conditions.

Our revenue growth rate has generally declined over time as a result of a number of factors, including increasing competition, query growth rates, challenges in maintaining our growth rate as our revenues increase to higher levels, the evolution of the online advertising market, our investments in new business strategies, changes in our product mix, and shifts in the geographic mix of our revenues. We also expect that our revenue growth rate will continue to be affected by evolving user preferences, the acceptance by users of our products and services as they are delivered on diverse devices, our ability to create a seamless experience for both users and advertisers, and movements in foreign currency exchange rates.

Google websites

The following table presents our Google websites revenues (in millions), those revenues expressed as a percentage of Google segment revenues, and changes in our paid clicks and cost-per-click (expressed as a percentage) for the periods presented:

	Year Ended December 31,		
	2013	2014	2015
Google websites	$ 37,422	$ 45,085	$ 52,357
Google websites as a percentage of Google segment revenues	67.4%	68.6 %	70.2 %
Paid clicks change		29 %	33 %
Cost-per-click change		(7)%	(15)%

Google websites revenues consist primarily of:

- AdWords revenue that is generated on Google.com. This includes revenue from traffic generated by search distribution partners who use Google.com as their default search in browsers, toolbars, etc.;
- Advertising revenue generated on YouTube, including, but not limited to YouTube TrueView and Google Preferred; and
- Advertising revenue generated from other Google owned and operated properties like Gmail, Finance, Maps, and Google Play.

Our Google websites revenues increased $7,272 million from 2014 to 2015 and also increased as a percentage of Google segment revenues. Our Google websites revenue growth was primarily driven by increases in mobile search due to ongoing improvements in ad formats, as well as growth in YouTube video advertising across TrueView and Google Preferred, partially offset by the general strengthening of the U.S. dollar compared to certain foreign currencies.

The number of paid clicks through our advertising programs increased from 2014 to 2015 due to an increase in aggregate traffic on Google owned properties, the adoption of advertising formats such as YouTube engagement ads, and continued global expansion of our products, advertisers and user base across all platforms, particularly mobile. The positive impact on our revenues from paid clicks was partially offset by a decrease in the cost-per-click paid by our advertisers. The decrease was primarily driven by continued growth in YouTube engagement ads where cost-per-click remains lower than on our other platforms, as well as changes in property and device mix, product mix, geographic mix, and ongoing product changes, and the general strengthening of the U.S. dollar compared to certain foreign currencies.

Our Google websites revenues increased $7,663 million from 2013 to 2014 and also increased as a percentage of

Google segment revenues. Our Google websites revenue growth was driven primarily by growth across all platforms due to ongoing improvements in ad formats, as well as growth in YouTube engagement ads, partially offset by the general strengthening of the U.S. dollar compared to certain foreign currencies.

The increase in the number of paid clicks generated through our advertising programs from 2013 to 2014 was due to certain monetization improvements including new and richer ad formats, an increase in aggregate traffic across all platforms, the continued global expansion of our products, advertisers, and user base, partially offset by certain advertising policy changes. The positive impact on our revenues from paid clicks was partially offset by a decrease in the average cost-per-click paid by our advertisers. The decrease was due to various factors, such as the geographic mix, device mix, property mix, ongoing product and policy changes, and the general strengthening of the U.S. dollar compared to certain foreign currencies.

Google Network Members' websites

The following table presents our Google Network Members' websites revenues (in millions), those revenues expressed as a percentage of Google segment revenues, and changes in our paid clicks and cost-per-click for the periods presented (in percentage terms):

	Year Ended December 31,		
	2013	2014	2015
Google Network Members' websites[(1)]	$ 13,650	$ 14,539	$ 15,033
Google Network Members' websites revenues as a percentage of Google segment revenues[(1)]	24.6%	22.1 %	20.2 %
Paid clicks change		2 %	(7)%
Cost-per-click change		(6)%	(3)%

(1) Prior period amounts have been adjusted to reflect the reclassification primarily related to DoubleClick ad serving software revenues from Google other revenues to Advertising Revenues from Google Network Members' websites to conform with the current period presentation.

Google Network Members' websites revenues consist primarily of:

- AdSense (such as AdSense for Search, AdSense for Content, etc.);
- AdExchange;
- AdMob;
- All DoubleClick-related revenues including DoubleClick Bid Manager revenues; and
- Other Network products including AdSense for Domains.

Our Google Network Members' websites revenues increased $494 million from 2014 to 2015. The increase was primarily driven by strength in programmatic advertising buying, offset by our continued AdSense advertising policy changes aimed at enriching the experience for users and the general strengthening of the U.S. dollar compared to certain foreign currencies. The decrease in Network Members' websites revenues as a percentage of Google segment revenues is due to relatively slower growth of Network Members' websites revenues compared to that of Google websites revenues as well as Google other revenues.

The decreases in both paid clicks and cost-per-click paid by our advertisers from 2014 to 2015 were primarily driven by ongoing product and policy changes designed to reduce lower quality inventory on AdSense for Search, changes in property and device mix, product mix, and geographic mix, and the general strengthening of the U.S. dollar compared to certain foreign currencies.

Our Google Network Members' websites revenues increased $889 million from 2013 to 2014. The increase was mainly due to certain monetization improvements including new and richer ad formats and an increase in the number of Google Network Members, partially offset by certain AdSense advertising policy changes aimed at enriching the experience for users. The decrease in Network Members' websites revenues as a percentage of Google segment revenues is due to relatively slower growth of Network Members' websites revenues compared to that of Google websites revenues as well as Google other revenues.

The increase in paid clicks from 2013 to 2014 was due to certain monetization improvements including new and richer ad formats, an increase in aggregate traffic across all platforms, the continued global expansion of our products, advertisers, and user base, and an increase in the number of Google Network Members, partially offset by certain advertising policy changes. The decrease in the average cost-per-click from 2013 to 2014 was due to various factors, such as the geographic mix, device mix, property mix, ongoing product and policy changes, and the general strengthening of the U.S. dollar compared to certain foreign currencies.

Google other revenues

The following table presents our Google other revenues (in millions), and those revenues expressed as a percentage of Google segment revenues, for the periods presented:

	Year Ended December 31,		
	2013	2014	2015
Google other revenues[(1)]	$ 4,435	$ 6,050	$ 7,151
Google other revenues as a percentage of Google segment revenues[(1)]	8.0%	9.3%	9.6%

(1) Prior period amounts have been adjusted to reflect the reclassification primarily related to DoubleClick ad serving software revenues from Google other revenues to Advertising Revenues from Google Network Members' websites to conform with the current period presentation.

Google other revenues consist primarily of:

- Sales of apps and media content in the Google Play store;
- Sales of certain Google branded hardware, such as Chromecast;
- Service fees received for cloud and apps and our Maps API; and
- Licensing-related revenue.

Google other revenues increased $1,101 million from 2014 to 2015 and increased as a percentage of Google segment revenues. These increases were primarily due to the growth of our sales of digital content products in the Google Play store, primarily apps (revenues which we recognize net of payout to partners). In addition, there was an increase in revenues from service fees received for cloud and apps offerings. These increases were partially offset by the general strengthening of the U.S. dollar compared to certain foreign currencies.

Google other revenues increased $1,615 million from 2013 to 2014 and increased as a percentage of Google segment revenues. The increase was primarily due to growth of our sales of digital content products in the Google Play store, primarily apps.

Other Bets

The following table presents our Other Bets revenues (in millions), and those revenues expressed as a percentage of consolidated revenues, for the periods presented:

	Year Ended December 31,		
	2013	2014	2015
Other Bets revenues	$ 12	$ 327	$ 448
Other Bets revenues as a percentage of consolidated revenues	0.0%	0.5%	0.6%

Other Bets revenues consist primarily of:

- Sales of Nest branded hardware;
- Revenues from internet and TV services; and
- Revenues from licensing and R&D services.

Our Other Bets revenues increased $121 million from 2014 to 2015 and remained relatively flat as a percentage of consolidated revenues. The increase was primarily due to increases in revenues from sales of Nest branded hardware and revenues from internet and TV services, partially offset by a decrease in licensing revenues. As Nest was acquired in February 2014, the increase in our Nest revenues is impacted by a partial year of revenues in 2014 as compared to a full year in 2015.

Our Other Bets revenues increased $315 million from 2013 to 2014 and increased as a percentage of consolidated revenues. This is primarily due to the acquisition of Nest in 2014 as well as an increase of licensing revenues.

Consolidated Revenues by Geography

The following table presents our domestic and international revenues as a percentage of consolidated revenues, determined based on the billing addresses of our customers:

	Year Ended December 31,		
	2013	2014	2015
United States	46%	45%	46%
United Kingdom	10%	10%	10%
Rest of the world	44%	45%	44%

For the amounts of revenues by geography, please refer to Note 16 of the Notes to Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K.

Use of Constant Currency and Constant Currency Growth

The impact of exchange rates on our business is an important factor in understanding period to period comparisons. Our international revenues are favorably impacted as the U.S. dollar weakens relative to other foreign currencies, and unfavorably impacted as the U.S dollar strengthens relative to other foreign currencies. We believe the presentation of results on a constant currency basis in addition to reported results helps improve the ability to understand our performance because they exclude the effects of foreign currency volatility that are not indicative of our core operating results.

Constant currency information compares results between periods as if exchange rates had remained constant period over period. We define constant currency revenues as total revenues excluding the impact of foreign exchange rate movements and hedging activities, and use it to determine the constant currency revenue growth on a year-on-year basis. Constant currency revenues are calculated by translating current period revenues using prior period exchange rates, as well as excluding any hedging gains realized in the current period.

Constant currency revenue growth (expressed as a percentage) is calculated by determining the increase in current period revenues over prior period revenues where current period foreign currency revenues are translated using prior period exchange rates and hedging benefits are excluded from revenues of both periods.

These results should be considered in addition to, not as a substitute for, results reported in accordance with GAAP. Results 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 GAAP.

The following table presents our foreign exchange impact on United Kingdom revenues for the periods presented (in millions; unaudited):

	Year Ended December 31,		
	2013	2014	2015
United Kingdom revenues	$ 5,600	$ 6,483	$ 7,067
Exclude: Foreign exchange impact on current year revenues using prior period rates	67	(304)	538
Exclude: Hedging gains recognized	(63)	(3)	(133)
Constant currency United Kingdom revenues	$ 5,604	$ 6,176	$ 7,472
United Kingdom revenue growth rate		16%	9%
United Kingdom constant currency revenue growth rate		12%	15%

In 2015, our revenues from the United Kingdom were unfavorably impacted by changes in foreign currency exchange rates over the prior year, primarily as the U.S. dollar strengthened relative to the British pound.

In 2014, our revenues from the United Kingdom were favorably impacted by changes in foreign currency exchange rates over the prior year, primarily as the U.S. dollar weakened relative to the British pound.

The following table presents our foreign exchange impact on Rest of the world and total revenues for the periods presented (in millions; unaudited):

	Year Ended December 31,		
	2013	2014	2015
Rest of the world revenues[1]	$ 24,332	$ 30,036	$ 33,112
Exclude: Foreign exchange impact on current year revenues using prior period rates	535	857	5,052
Exclude: Hedging gains recognized	(32)	(169)	(1,267)
Constant currency Rest of the world revenues	$ 24,835	$ 30,724	$ 36,897
Rest of the world revenue growth rate		23%	10%
Rest of the world constant currency revenue growth rate		26%	24%
United States revenues[1]	$ 25,587	$ 29,482	$ 34,810
United States revenue growth rate		15%	18%
Total consolidated revenues	$ 55,519	$ 66,001	$ 74,989
Constant currency total consolidated revenues	$ 56,026	$ 66,382	$ 79,179
Total consolidated revenue growth rate		19%	14%
Constant currency total consolidated revenue growth rate		20%	20%

(1) In the second quarter of 2015, we identified an incorrect classification of certain revenues between legal entities. We revised the classification of such revenues between Rest of the world and U.S. for prior periods. Please refer to Note 1 and Note 17 of the Notes to Consolidated Financial Statements included in Part II of this Annual report t on Form 10-K for further information.

In 2015, our revenues from the Rest of the world (excluding the United Kingdom) were unfavorably impacted by changes in foreign currency exchange rates, primarily because the U.S. dollar strengthened relative to the Euro, Brazilian real, Australian dollar and Japanese yen.

In 2014, our revenues from the Rest of the world (excluding the United Kingdom) were unfavorably impacted by changes in foreign currency exchange rates, as the U.S. dollar strengthened relative to certain currencies, most notably the Japanese yen and the Australian dollar, and partially offset by the favorable impact of the U.S. dollar weakening against certain currencies, most notably the Euro.

Consolidated Costs and Expenses

Cost of Revenues

Cost of revenues consists primarily of traffic acquisition costs which are the advertising revenues shared with our Google Network Members and the amounts paid to our distribution partners who distribute our browser or otherwise direct search queries to our website.

Additionally, other cost of revenues (which is the cost of revenues excluding traffic acquisition costs) includes the following:

- The expenses associated with the operation of our data centers (including depreciation, labor, energy, and bandwidth costs);
- Content acquisition costs primarily related to payments to certain content providers from whom we license their video and other content for distribution on YouTube and Google Play (we share the fees these sales generate with content providers or pay a fixed fee to these content providers);
- Credit card and other transaction fees related to processing customer transactions;
- Stock-based compensation expense;
- Revenue share payments to mobile carriers;
- Inventory costs for hardware we sell; and

- Amortization of certain intangible assets.

The following tables present our cost of revenues and cost of revenues as a percentage of revenues, and our traffic acquisition costs and traffic acquisition costs as a percentage of advertising revenues, for the periods presented (in millions):

	Year Ended December 31,		
	2013	2014	2015
Traffic acquisition costs	$ 12,258	$ 13,497	$ 14,343
Other cost of revenues	9,735	12,194	13,821
Total cost of revenues	$ 21,993	$ 25,691	$ 28,164
Total cost of revenues as a percentage of revenues	39.6%	38.9%	37.6%

	Year Ended December 31,		
	2013	2014	2015
Traffic acquisition costs to Google Network Members	$ 9,293	$ 9,864	$ 10,242
Traffic acquisition costs to distribution partners	2,965	3,633	4,101
Traffic acquisition costs	$ 12,258	$ 13,497	$ 14,343
Traffic acquisition costs as a percentage of advertising revenues	24.0%	22.6%	21.3%

The cost of revenues that we incur related to revenues generated from ads placed through our AdSense program on the websites of our Google Network Members are significantly higher than the costs of revenues we incur related to revenues generated from ads placed on Google websites because most of the advertiser fees from ads served on Google Network Members' websites are shared with our Google Network Members. For the past five years, growth in advertising revenues from Google websites has generally exceeded that from our Google Network Members' websites. This had a positive impact on our income from operations during this period.

Cost of revenues increased $2,473 million from 2014 to 2015. The increase was primarily due to data center costs and an increase in content acquisition costs as a result of increased activities related to YouTube and digital content. The remaining increase was driven by increases in traffic acquisition costs of $846 million, resulting from more advertiser fees generated through our AdSense program driven primarily by an increase in advertising revenues, as well as more fees paid to our distribution partners for additional traffic directed to our websites. Additionally, there was an impairment charge of $378 million recognized in 2014 related to a patent licensing royalty asset acquired in connection with the Motorola acquisition that did not recur in 2015. The decrease in aggregate traffic acquisition costs as a percentage of advertising revenues was primarily a result of a shift of mix from Google Network Members' websites revenue to Google websites revenue.

Cost of revenues increased $3,698 million from 2013 to 2014. The increase was partially due to increases in traffic acquisition costs of $1,239 million resulting from more distribution fees paid for additional traffic directed to Google websites, as well as more advertiser fees paid to Google Network Members, driven primarily by an increase in advertising revenues. The remaining increase was primarily driven by an increase in data center costs, content acquisition costs as a result of increased usage activities related to YouTube and digital content by our users, and revenue share payments to mobile carriers and original equipment manufacturers (OEMs). In addition, the increase was also driven by the impairment charge described above. The decrease in traffic acquisition costs as a percentage of advertising revenues was primarily a result of a shift of mix between Google websites revenue and Google Network Members' websites revenue.

We expect cost of revenues will increase in dollar amount and fluctuate as a percentage of total revenues in 2016 and future periods, based on a number of factors, including the following:

- The relative growth rates of revenues from Google websites and from our Google Network Members' website;
- The growth rates of expenses associated with our data center operations, as well as our hardware inventory costs;
- Increased proportion of other non-advertising revenues as part of our total revenues;
- Whether we are able to enter into more revenue share arrangements with Google Network Members and distribution partners that provide for lower revenue share obligations or whether increased competition for arrangements with existing and potential Google Network Members and distribution partners results in less favorable revenue share arrangements;
- Whether we are able to continue to improve the monetization of traffic on Google websites and our Google Network Members' websites; and

- The relative growth rates of expenses associated with distribution arrangements and the related revenues generated.

Research and Development

The following table presents our R&D expenses, and those expenses as a percentage of revenues, for the periods presented (in millions):

	Year Ended December 31,		
	2013	2014	2015
Research and development expenses	$ 7,137	$ 9,832	$ 12,282
Research and development expenses as a percentage of revenues	12.9%	14.9%	16.3%

R&D expenses consist primarily of:

- Labor and facilities-related costs for employees responsible for R&D of our existing and new products and services;
- Depreciation and equipment-related expenses; and
- Stock-based compensation expense.

R&D expenses increased $2,450 million and increased as a percentage of revenues from 2014 to 2015. These increases were primarily due to an increase in labor and facilities-related costs of $1,502 million and an increase in stock-based compensation expense of $487 million, both largely as a result of a 16% increase in R&D headcount. The increase in labor and facilities-related costs was also impacted by expenses resulting from project milestones in Other Bets established several years ago. In addition, there was an increase in depreciation and equipment-related expenses of approximately $248 million and an increase in professional services of $174 million due to additional expenses incurred for consulting and outsourced services.

R&D expenses increased $2,695 million and increased as a percentage of revenues from 2013 to 2014. These increases were primarily due to an increase in labor and facilities-related costs of $1,289 million and an increase in stock-based compensation expense of $559 million, both largely as a result of a 27% increase in R&D headcount. In addition, there was an increase in depreciation and equipment-related expenses of $425 million and an increase in professional services of $371 million due to additional expenses incurred for consulting and outsourced services.

We expect that R&D expenses will increase in dollar amount and may fluctuate as a percentage of revenues in 2016 and future periods.

Sales and Marketing

The following table presents our sales and marketing expenses, and those expenses as a percentage of revenues, for the periods presented (in millions):

	Year Ended December 31,		
	2013	2014	2015
Sales and marketing expenses	$ 6,554	$ 8,131	$ 9,047
Sales and marketing expenses as a percentage of revenues	11.8%	12.3%	12.1%

Sales and marketing expenses consist primarily of:

- Labor and facilities-related costs for our personnel engaged in sales and marketing, sales support, and certain customer service functions;
- Advertising and promotional expenditures related to our products and services; and
- Stock-based compensation expense.

Sales and marketing expenses increased $916 million and remained relatively flat as a percentage of revenues from 2014 to 2015. The increase in dollar amount was primarily due to an increase in labor and facilities-related costs of $329 million and an increase in stock-based compensation expense of $184 million, largely resulting from a 12% increase in sales and marketing headcount. In addition, there was an increase in advertising and promotional expenses of $184 million and an increase in professional service fees of $158 million due to additional expenses incurred for consulting and outsourced services.

Sales and marketing expenses increased $1,577 million from 2013 to 2014 and increased as a percentage of revenues from 2013 to 2014. These increases were primarily due to an increase in advertising and promotional

COEX
8.188

expenses of $614 million. In addition, there was an increase in labor and facilities-related costs of $571 million and an increase in stock-based compensation expense of $163 million, both largely resulting from a 15% increase in sales and marketing headcount.

We expect that sales and marketing expenses will increase in dollar amount and may fluctuate as a percentage of revenues in 2016 and future periods.

General and Administrative

The following table presents our general and administrative expenses, and those expenses as a percentage of revenues, for the periods presented (in millions):

	Year Ended December 31,		
	2013	2014	2015
General and administrative expenses	$ 4,432	$ 5,851	$ 6,136
General and administrative expenses as a percentage of revenues	8.0%	8.9%	8.2%

General and administrative expenses consist primarily of:

- Labor and facilities-related costs for personnel in our facilities, finance, human resources, information technology, and legal organizations;
- Depreciation and equipment-related expenses;
- Professional services fees primarily related to outside legal, audit, information technology consulting, and outsourcing services;
- Amortization of certain intangible assets; and
- Stock-based compensation expense.

General and administrative expenses increased $285 million and decreased as a percentage of revenues from 2014 to 2015. The increase in dollar amount was primarily due to an increase in stock-based compensation expense of $136 million and an increase in labor and facilities-related costs of $69 million, both largely resulting from a 15% increase in general and administrative headcount. In addition, there was an increase in depreciation and equipment-related expenses of $121 million and an increase of $80 million of miscellaneous general and administrative expenses. These factors were partially offset by a decrease in professional service fees and expenses of $128 million, primarily due to lower legal-related costs.

General and administrative expenses increased $1,419 million and increased as a percentage of revenues from 2013 to 2014. The increases were primarily due to an increase in labor and facilities-related costs of $576 million and an increase in stock-based compensation expense of $260 million, both largely resulting from a 24% increase in general and administrative headcount. In addition, there was an increase in professional services related expense of $314 million due to higher legal related costs, as well as additional consulting and outsourced services.

We expect general and administrative expenses will increase in dollar amount and may fluctuate as a percentage of revenues in 2016 and future periods.

Stock-Based Compensation

The following table presents our equity settled stock-based compensation expense, and equity settled stock-based compensation as a percentage of revenues, as reflected in our consolidated results from continuing operations for the periods presented (in millions):

	Year Ended December 31,		
	2013	2014	2015
Stock-based compensation	$ 3,127	$ 4,175	$ 5,203
Stock-based compensation as a percentage of revenues	5.6%	6.3%	6.9%

Stock-based compensation related to equity settled awards increased $1,028 million from 2014 to 2015 and $1,048 million from 2013 to 2014, and increased as a percentage of revenues in both periods. These increases were primarily driven by headcount growth. Additionally, we recognized stock-based compensation expense associated with awards ultimately settled in cash of $0 million, $0 million, and $50 million in the years ended December 31, 2013, 2014, and 2015, respectively.

We estimate equity settled stock-based compensation expense to be approximately $5.3 billion in 2016 and $5.8 billion thereafter related to stock awards outstanding as of December 31, 2015. This estimate does not include

expenses to be recognized related to stock-based awards granted after December 31, 2015. If forfeiture rates are different from what we have anticipated, stock-based compensation related to these awards will be different from our expectations.

Consolidated Other Income (Expense), Net

The following table presents other income (expense), net, and other income (expense), net, as a percentage of revenues (in millions):

	Year Ended December 31,		
	2013	2014	2015
Other income (expense), net	$ 496	$ 763	$ 291
Other income (expense), net, as a percentage of revenues	0.9%	1.1%	0.4%

Other income (expense), net, decreased $472 million from 2014 to 2015. This decrease was primarily related to a writedown of securities received in conjunction with the sale of a business, as well as, reduced gains on non-marketable investments as compared to 2014. These decreases were partially offset by an increase in interest income as a result of increased cash and fixed income investments.

Other income (expense), net, increased $267 million from 2013 to 2014. This increase was primarily driven by realized gains on non-marketable equity investments of $159 million and previously-held equity interests of $126 million, as well as a loss recognized on divestiture of businesses (other than Motorola Home) in 2013. These increases were partially offset by an increase in foreign currency exchange loss of $23 million and a decrease in interest income of $20 million.

The costs of our foreign exchange hedging activities recognized to other income, net, are primarily a function of the notional amount of the option and forward contracts and their related duration, the movement of the foreign exchange rates relative to the strike prices of the contracts, and the volatility of foreign exchange rates.

As we expand our international business, costs related to hedging activities under our foreign exchange risk management program may increase in 2016 and future periods.

Consolidated Provision for Income Taxes

The following table presents our provision for income taxes, and effective tax rate for the periods presented (in millions):

	Year Ended December 31,		
	2013[(1)]	2014[(1)]	2015
Provision for income taxes	$ 2,739	$ 3,639	$ 3,303
Effective tax rate	17.2%	21.1%	16.8%

(1) In the second quarter of 2015, we identified an incorrect classification of certain revenues between legal entities, and as a consequence, we revised our income tax expense for periods beginning in 2008 through the first quarter of 2015. Please refer to Note 1 and Note 17 of the Notes to Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K.

Our provision for income taxes and our effective tax rate decreased from 2014 to 2015, largely due to a discrete benefit recognized in 2015 as a result of the resolution of a multi-year audit in the U.S. and proportionately more earnings realized in countries that have lower statutory tax rates.

Our provision for income taxes and our effective tax rate increased from 2013 to 2014, largely due to proportionately more earnings realized in countries that have higher statutory tax rates and more benefit recognized in 2013 relative to 2014 due to the retroactive extension of the 2012 federal research and development credit, offset by a benefit taken on a valuation allowance release related to a capital loss carryforward in 2014.

A reconciliation of the federal statutory income tax rate to our effective tax rate is set forth in Note 15 of Notes to Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K.

Our future effective tax rates could be adversely affected by earnings being lower than anticipated in countries that have lower statutory rates and higher than anticipated in countries that have higher statutory rates, the net gains and losses recognized by legal entities on certain hedges and related hedged intercompany and other transactions under our foreign exchange risk management program, changes in the valuation of our deferred tax assets or liabilities, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items.

We are subject to the continuous examination of our income tax returns by the Internal Revenue Service (IRS) and other domestic and foreign tax authorities. We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. We continue to monitor the progress of ongoing discussions with tax authorities and the impact, if any, of the expected expiration of the statute of limitations

in various taxing jurisdictions. Further information on these issues, the treatment of undistributed foreign earnings and a reconciliation of the federal statutory income tax rate to our effective tax rate can be found in Notes 11 and 15 of Part II, Item 8 of this Annual Report on Form 10-K.

See Critical Accounting Policies and Estimates below for additional information about our provision for income taxes.

Quarterly Results of Operations

The following tables presenting our quarterly results of operations should be read in conjunction with the consolidated financial statements and related notes included in Item 8 of this Annual Report on Form 10-K. We have prepared the unaudited information on the same basis as our audited consolidated financial statements. Our operating results for any quarter are not necessarily indicative of results for any future quarters or for a full year.

The following table presents our unaudited quarterly results of operations for the eight quarters ended December 31, 2015. This table includes all adjustments, consisting only of normal recurring adjustments, that we consider necessary for fair presentation of our consolidated financial position and operating results for the quarters presented. Both seasonal fluctuations in internet usage and traditional retail seasonality have affected, and are likely to continue to affect, our business. Internet usage generally slows during the summer months, and commercial queries typically increase significantly in the fourth quarter of each year. These seasonal trends have caused, and will likely continue to cause, fluctuations in our quarterly results, including fluctuations in sequential revenue growth rates.

	Quarter Ended							
	Mar 31, 2014[1]	Jun 30, 2014[1]	Sep 30, 2014[1]	Dec 31, 2014[1]	Mar 31, 2015[1]	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015
	(In millions, except per share amounts) (unaudited)							
Consolidated Statements of Income Data:								
Revenues	$15,420	$15,955	$16,523	$18,103	$17,258	$17,727	$18,675	$21,329
Costs and expenses:								
Cost of revenues	5,961	6,114	6,695	6,921	6,356	6,583	7,037	8,188
Research and development	2,126	2,238	2,655	2,813	2,753	2,789	3,230	3,510
Sales and marketing	1,729	1,941	2,084	2,377	2,065	2,080	2,223	2,679
General and administrative	1,489	1,404	1,365	1,593	1,637	1,450	1,477	1,572
Total costs and expenses	11,305	11,697	12,799	13,704	12,811	12,902	13,967	15,949
Income from operations	4,115	4,258	3,724	4,399	4,447	4,825	4,708	5,380
Other income (expense), net	357	145	133	128	157	131	183	(180)
Income from continuing operations before income taxes	4,472	4,403	3,857	4,527	4,604	4,956	4,891	5,200
Provision for income taxes	903	984	933	819	1,089	1,025	912	277
Net income from continuing operations	$ 3,569	$ 3,419	$ 2,924	$ 3,708	$ 3,515	$ 3,931	$ 3,979	$ 4,923
Net income (loss) from discontinued operations	(198)	(68)	(185)	967	0	0	0	0
Net income	$ 3,371	$ 3,351	$ 2,739	$ 4,675	$ 3,515	$ 3,931	$ 3,979	$ 4,923
Less: Adjustment Payment to Class C capital stockholders	0	0	0	0	0	522	0	0
Net income available to all stockholders	$ 3,371	$ 3,351	$ 2,739	$ 4,675	$ 3,515	$ 3,409	$ 3,979	$ 4,923

(1) In the second quarter of 2015, we identified an incorrect classification of certain revenues between legal entities, and as a consequence, we revised our income tax expense for periods beginning in 2008 through the first quarter of 2015. Please refer to Note 1 and Note 17 of the Notes to Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K.

The basic and diluted income per share data as included on the consolidated statements of income of Alphabet Inc. were as follows for the periods presented (not required for Google pursuant to Rule 12g-3(a)):

	Quarter Ended							
	Mar 31, 2014[1]	Jun 30, 2014[1]	Sep 30, 2014[1]	Dec 31, 2014[1]	Mar 31, 2015[1]	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015
	(unaudited)							
Basic net income (loss) per share of Class A and B common stock:								
Continuing operations	$ 5.30	$ 5.06	$ 4.32	$ 5.46	$ 5.16	$ 4.99	$ 5.80	$ 7.16
Discontinued operations	(0.29)	(0.10)	(0.27)	1.43	0.00	0.00	0.00	0.00
Basic net income per share of Class A and B common stock	$ 5.01	$ 4.96	$ 4.05	$ 6.89	$ 5.16	$ 4.99	$ 5.80	$ 7.16
Basic net income (loss) per share of Class C capital stock:								
Continuing operations	$ 5.30	$ 5.06	$ 4.32	$ 5.46	$ 5.16	$ 6.51	$ 5.80	$ 7.16
Discontinued operations	(0.29)	(0.10)	(0.27)	1.43	0.00	0.00	0.00	0.00
Basic net income per share of Class C capital stock	$ 5.01	$ 4.96	$ 4.05	$ 6.89	$ 5.16	$ 6.51	$ 5.80	$ 7.16
Diluted net income (loss) per share of Class A and B common stock:								
Continuing operations	$ 5.21	$ 4.98	$ 4.25	$ 5.38	$ 5.10	$ 4.93	$ 5.73	$ 7.06
Discontinued operations	(0.29)	(0.10)	(0.27)	1.41	0.00	0.00	0.00	0.00
Diluted net income per share of Class A and B common stock	$ 4.92	$ 4.88	$ 3.98	$ 6.79	$ 5.10	$ 4.93	$ 5.73	$ 7.06
Diluted net income (loss) per share of Class C capital stock:								
Continuing operations	$ 5.21	$ 4.98	$ 4.25	$ 5.38	$ 5.10	$ 6.43	$ 5.73	$ 7.06
Discontinued operations	(0.29)	(0.10)	(0.27)	1.41	0.00	0.00	0.00	0.00
Diluted net income per share of Class C capital stock	$ 4.92	$ 4.88	$ 3.98	$ 6.79	$ 5.10	$ 6.43	$ 5.73	$ 7.06

(1) In the second quarter of 2015, we identified an incorrect classification of certain revenues between legal entities, and as a consequence, we revised our income tax expense for periods beginning in 2008 through the first quarter of 2015. Please refer to Note 1 and Note 17 of the Notes to Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K.

The following table presents our unaudited quarterly results of operations as a percentage of revenues for the eight quarters ended December 31, 2015:

	Quarter Ended							
	Mar 31, 2014[1]	Jun 30, 2014[1]	Sep 30, 2014[1]	Dec 31, 2014[1]	Mar 31, 2015[1]	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015
	(unaudited)							
Revenues	100.0 %	100.0 %	100.0 %	100.0%	100.0%	100.0%	100.0%	100.0 %
Costs and expenses:								
Cost of revenues	38.7	38.3	40.5	38.2	36.8	37.1	37.7	38.4
Research and development	13.8	14.0	16.1	15.5	16.0	15.7	17.3	16.4
Sales and marketing	11.2	12.2	12.6	13.1	12.0	11.8	11.9	12.6
General and administrative	9.6	8.8	8.3	8.9	9.4	8.2	7.9	7.4
Total costs and expenses	73.3	73.3	77.5	75.7	74.2	72.8	74.8	74.8
Income from operations	26.7	26.7	22.5	24.3	25.8	27.2	25.2	25.2
Other income (expense), net	2.3	0.9	0.8	0.7	0.9	0.8	1.0	(0.8)
Income from continuing operations before income taxes	29.0	27.6	23.3	25.0	26.7	28.0	26.2	24.4
Provision for income taxes	5.8	6.2	5.6	4.5	6.3	5.8	4.9	1.3
Net income from continuing operations	23.2	21.4	17.7	20.5	20.4	22.2	21.3	23.1
Net income (loss) from discontinued operations	(1.3)	(0.4)	(1.1)	5.3	0.0	0.0	0.0	0.0
Net income	21.9 %	21.0 %	16.6 %	25.8%	20.4%	22.2%	21.3%	23.1 %
Less: Adjustment Payment to Class C capital stockholders	0.0 %	0.0 %	0.0 %	0.0%	0.0%	2.9%	0.0%	0.0 %
Net income available to all stockholders	21.9 %	21.0 %	16.6 %	25.8%	20.4%	19.2%	21.3%	23.1 %

(1) In the second quarter of 2015, we identified an incorrect classification of certain revenues between legal entities, and as a consequence, we revised our income tax expense for periods beginning in 2008 through the first quarter of 2015. Please refer to Note 1 and Note 17 of the Notes to Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K.

Capital Resources and Liquidity

As of December 31, 2015, we had $73.1 billion of cash, cash equivalents, and marketable securities. Cash equivalents and marketable securities are comprised of time deposits, money market and other funds, including cash collateral received related to our securities lending program, fixed-income bond funds, highly liquid debt instruments of the U.S. government and its agencies, debt instruments issued by foreign governments, debt instruments issued by municipalities in the U.S., corporate debt securities, agency mortgage-backed securities, and asset-backed securities. From time to time, we may hold marketable equity securities obtained through acquisitions or strategic investments in private companies that subsequently go public.

As of December 31, 2015, $42.9 billion of the $73.1 billion of cash, cash equivalents, and marketable securities was held by our foreign subsidiaries. If these funds were needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds

outside of the U.S. and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

Our principal sources of liquidity are our cash, cash equivalents, and marketable securities, as well as the cash flow that we generate from our operations. As of December 31, 2015, we had unused letters of credit of approximately $752 million. We believe that our sources of funding will be sufficient to satisfy our currently anticipated cash requirements through at least the next 12 months. Our liquidity could be negatively affected by a decrease in demand for our products and services. In addition, we may make acquisitions, increase our capital expenditures, or license products and technologies complementary to our business and may need to raise additional capital through future

debt or equity financing to provide for greater flexibility to fund these activities. Additional financing may not be available or on terms favorable to us.

We have a debt financing program of up to $3.0 billion through the issuance of commercial paper. Net proceeds from this program are used for general corporate purposes. As of December 31, 2015, we had $2.0 billion of commercial paper outstanding recorded as short-term debt, with a weighted-average interest rate of 0.2% that matures at various dates through February 2016. In conjunction with this program, we have a $3.0 billion revolving credit facility expiring in July 2016. The interest rate for the credit facility is determined based on a formula using certain market rates. As of December 31, 2015, we were in compliance with the financial covenant in the credit facility and no amounts were outstanding.

We intend to align our capital structure so that debt is held at the holding company level. In January 2016, the board of directors of Alphabet authorized the company to issue up to $5.0 billion of commercial paper from time to time and to enter into a $4.0 billion revolving credit facility to replace Google's existing $3.0 billion revolving credit facility.

In May 2011, we issued $3.0 billion of unsecured senior notes (2011 Notes) in three equal tranches, due in 2014, 2016, and 2021. The net proceeds from the sale of the 2011 Notes were used to repay a portion of our outstanding commercial paper and for general corporate purposes. In February 2014, we issued $1.0 billion of unsecured senior notes (2014 Notes) due in 2024, which was used to repay $1.0 billion of the first tranche of our 2011 Notes that matured in May 2014 and for general corporate purposes.

As of December 31, 2015, the outstanding notes had a total carrying value of $3.0 billion and a total estimated fair value of $3.1 billion. We are not subject to any financial covenants under the notes.

In August 2013, we entered into a $258 million capital lease obligation on certain property expiring in 2028. We intend to exercise the option to purchase the property in 2016. The effective rate of the capital lease obligation approximates the market rate.

In October 2015, the board of directors of Alphabet authorized the company to repurchase up to $5,099,019,513.59 of its Class C capital stock, commencing in the fourth quarter of 2015. The repurchases are being executed from time to time, subject to general business and market conditions and other investment opportunities, through open market purchases or privately negotiated transactions, including through the use of 10b5-1 plans. The repurchase program does not have an expiration date. As of December 31, 2015, Alphabet repurchased and subsequently retired $1.8 billion of its Class C capital stock. Alphabet's share repurchases in the year ended December 31, 2015 were funded by Google via a return of capital to Alphabet. In January 2016, the board of directors of Alphabet authorized the company to repurchase an additional amount of approximately 514 thousand shares.

For 2013, 2014 and 2015, our cash flows were as follows (in millions):

	Year Ended December 31,		
	2013	2014	2015
Net cash provided by operating activities	$ 18,659	$ 22,376	$ 26,024
Net cash used in investing activities	(13,679)	(21,055)	(23,711)
Net cash used in financing activities	(857)	(1,439)	(3,677)

Cash Provided by Operating Activities

Our largest source of cash provided by our operations is advertising revenues generated by Google websites and Google Network Members' websites. Additionally, we generate cash through sales of apps and digital content, hardware products, licensing arrangements, and service fees received for cloud and apps and our Maps API. Prior to its divestiture in October 2014, we also generated cash from sales of hardware products related to the Motorola Mobile business.

Our primary uses of cash from our operating activities include payments to our Google Network Members and distribution partners, and payments for content acquisition costs. Prior to the sale of the Motorola Mobile business, our use of cash also included payment for manufacturing and inventory-related costs in the Motorola Mobile business. In addition, uses of cash from operating activities include compensation and related costs, other general corporate expenditures, and income taxes.

Net cash provided by operating activities increased from 2014 to 2015 primarily due to increased net income

adjusted for depreciation and stock-based compensation expense, and loss on sales of marketable and non-marketable securities. This is partially offset by a net decrease in cash from changes in working capital.

Net cash provided by operating activities increased from 2013 to 2014 primarily due to increased net income adjusted for depreciation and loss on disposal of property and equipment and stock-based compensation expense, and a net increase in cash from changes in working capital primarily driven by changes in prepaid revenue share, expenses, and other assets.

Cash Used in Investing Activities

Cash provided by or used in investing activities primarily consists of purchases of property and equipment, purchases, maturities, and sales of marketable securities in our investment portfolio, investments in reverse repurchase agreements and the cash collateral received or returned from our securities lending program, as well as acquisitions and divestitures of businesses and intangible assets.

Cash used in investing activities increased from 2014 to 2015 primarily due to net increases in purchases of marketable securities, activities related to security lending and purchases of non-marketable investments. This increase was partially offset by lower spend related to acquisitions, lower investments in reverse repurchase agreements, and a decrease in capital expenditures related to our production equipment, data centers, and real estate purchases.

Cash used in investing activities increased from 2013 to 2014 primarily due to increases in capital expenditures related to our production equipment, data centers, and real estate purchases, higher spend related to acquisitions, and lower proceeds received in 2014 from divestiture of businesses compared to 2013. This increase was partially offset by a net decrease in purchases of marketable securities.

Cash Used in Financing Activities

Cash used in financing activities consists primarily of net proceeds or payments from issuance or repayments of debt, repurchases of capital stock, and net proceeds or payments and excess tax benefits from stock-based award activities.

In Alphabet, cash used in financing activities increased from 2014 to 2015 primarily driven by the repurchases of capital stock and an increase in net payments related to stock-based award activities. In Google, cash used in financing activities increased from 2014 to 2015 is primarily driven by capital transactions with Alphabet, partially offset by net payments related to stock-based award activities.

Cash used in financing activities increased from 2013 to 2014 is primarily driven by an increase in net payments related to stock-based award activities, offset partially by a decrease in net cash payments related to debt.

Contractual Obligations as of December 31, 2015

The following summarizes our contractual obligations, excluding open orders for purchases that support normal operations, as of December 31, 2015 (in millions):

	Payments Due By Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating lease obligations, net of sublease income amounts[1]	$ 7,406	$ 646	$ 1,573	$ 1,482	$ 3,705
Purchase obligations[2]	1,697	946	298	150	303
Long-term debt obligations, including capital lease obligations[3]	3,722	1,306	140	140	2,136
Other long-term liabilities reflected on our balance sheet[4]	1,580	356	430	367	427
Total contractual obligations	$ 14,405	$ 3,254	$ 2,441	$ 2,139	$ 6,571

(1) For further information, refer to Note 11 of the Notes to Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K.

(2) Purchase obligations represent non-cancelable contractual obligations primarily related to data center operations and facility build-outs, video and other content licensing revenue sharing arrangements, as well as purchases of inventory.

(3) For further information, refer to Note 4 of the Notes to Consolidated Financial Statements included in Part II of this Annual Report on Form 10-K.

(4) Other long-term liabilities represent cash obligations recorded on our consolidated balance sheets, including the short-term portion of these long-term liabilities and consist primarily of payments owed in connection with certain commercial agreements, investments and asset retirement obligations. In addition to the amounts above, we had long-term tax payable of $3.7 billion as of December 31, 2015 primarily related to uncertain tax positions. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months due to uncertainties in the timing of tax audit outcomes. As a result, this amount is not included in the above table.

Off-Balance Sheet Arrangements

As of December 31, 2015, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of Regulation S-K promulgated by the SEC, that have or are reasonably likely to have a current or future effect on our financial condition, changes in our financial condition, revenues, or expenses, results of operations, liquidity, capital expenditures, or capital resources that is material to investors.

Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in accordance with U.S. Generally Accepted Accounting Principles (GAAP). In doing so, we have to make estimates and assumptions that affect our reported amounts of assets, liabilities, revenues, and expenses, as well as related disclosure of contingent assets and liabilities. In some cases, we could reasonably have used different accounting policies and estimates. In some cases, changes in the accounting estimates are reasonably likely to occur from period to period. Accordingly, actual results could differ materially from our estimates. To the extent that there are material differences between these estimates and actual results, our financial condition or results of operations will be affected. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We refer to accounting estimates of this type as critical accounting policies and estimates, which we discuss further below. We have reviewed our critical accounting policies and estimates with the audit committee of our board of directors.

Please see Note 1 of Part II, Item 8 of this Annual Report on Form 10-K for the summary of significant accounting policies.

Income Taxes

We are subject to income taxes in the U.S. and numerous foreign jurisdictions. Significant judgment is required in evaluating our uncertain tax positions and determining our provision for income taxes.

Although we believe we have adequately reserved for our uncertain tax positions, no assurance can be given that the final tax outcome of these matters will not be different. We adjust these reserves in light of changing facts and circumstances, such as the closing of a tax audit or the refinement of an estimate. To the extent that the final tax outcome of these matters is different than the amounts recorded, such differences will impact the provision for income taxes and the effective tax rate in the period in which such determination is made. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate, as well as the related net interest and penalties. In addition, we are subject to the continuous examination of our income tax returns by the IRS and other tax authorities which may assert assessments against us. We regularly assess the likelihood of adverse outcomes resulting from these examinations and assessments to determine the adequacy of our provision for income taxes.

Loss Contingencies

We are regularly subject to claims, suits, government investigations, and other proceedings involving competition and antitrust, intellectual property, privacy, indirect taxes, labor and employment, commercial disputes, content generated by our users, goods and services offered by advertisers or publishers using our platforms, and other matters. Certain of these matters include speculative claims for substantial or indeterminate amounts of damages. We record a liability when we believe that it is probable that a loss has been incurred, and the amount can be reasonably estimated. If we determine that a loss is reasonably possible and the loss or range of loss can be estimated, we disclose the possible loss in the Notes to the Consolidated Financial Statements.

We evaluate, on a monthly basis, developments in our legal matters that could affect the amount of liability that has been previously accrued, and the matters and related reasonably possible losses disclosed, and make adjustments and changes to our disclosures as appropriate. Significant judgment is required to determine both likelihood of there being and the estimated amount of a loss related to such matters. Until the final resolution of such matters, there may be an exposure to loss in excess of the amount recorded, and such amounts could be material. Should any of our estimates and assumptions change or prove to have been incorrect, it could have a material impact on our business, consolidated financial position, results of operations, or cash flows. See Note 11 of Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for additional information regarding contingencies.

Business Combinations

COEX
8.188

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair values. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. When determining the fair values

of assets acquired and liabilities assumed, management makes significant estimates and assumptions, especially with respect to intangible assets.

Critical estimates in valuing certain intangible assets include but are not limited to future expected cash flows from customer relationships and acquired patents and developed technology; and discount rates. Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates.

Other estimates associated with the accounting for acquisitions may change as additional information becomes available regarding the assets acquired and liabilities assumed, as more fully discussed in Note 6 of Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Goodwill

Goodwill is allocated to reporting units expected to benefit from the business combination. We evaluate our reporting units when changes in our operating structure occur, and if necessary, reassign goodwill using a relative fair value allocation approach. We test goodwill for impairment at the reporting unit level at least annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. Goodwill impairment tests require judgment, including the identification of reporting units, assignment of assets and liabilities to reporting units, assignment of goodwill to reporting units, and determination of the fair value of each reporting unit. As of December 31, 2015, no impairment of goodwill has been identified.

Long-lived Assets

Long-lived assets, including property and equipment, long-term prepayments, and intangible assets, excluding goodwill, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The evaluation is performed at the lowest level of identifiable cash flows independent of other assets. An impairment loss would be recognized when estimated undiscounted future cash flows generated from the assets are less than their carrying amount. Measurement of an impairment loss would be based on the excess of the carrying amount of the asset group over its fair value.

Impairment of Marketable and Non-Marketable Securities

We periodically review our marketable and non-marketable securities for impairment. If we conclude that any of these investments are impaired, we determine whether such impairment is other-than-temporary. Factors we consider to make such determination include the duration and severity of the impairment, the reason for the decline in value and the potential recovery period and our intent to sell. For marketable debt securities, we also consider whether (1) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, and (2) the amortized cost basis cannot be recovered as a result of credit losses. If any impairment is considered other-than-temporary, we will write down the asset to its fair value and record the corresponding charge as other income (expense), net.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to financial market risks, including changes in currency exchange rates and interest rates.

Foreign Currency Exchange Risk

We transact business globally in multiple currencies. Our international revenues, as well as costs and expenses denominated in foreign currencies, expose us to the risk of fluctuations in foreign currency exchange rates against the U.S. dollar. We are a net receiver of foreign currencies and therefore benefit from a weakening of the U.S. dollar and are adversely affected by a strengthening of the U.S. dollar relative to the foreign currency. As of December 31, 2015, our most significant currency exposures are the British pound, Euro, and Japanese yen.

We use foreign exchange option contracts to protect our forecasted U.S. dollar-equivalent earnings from adverse changes in foreign currency exchange rates. These hedging contracts reduce, but do not entirely eliminate the impact of adverse currency exchange rate movements. We designate these option contracts as cash flow hedges for accounting purposes. The fair value of the option contract is separated into its intrinsic and time values. Changes in the time value are recorded in other income (expense), net. Changes in the intrinsic value are recorded as a component of accumulated other comprehensive income (AOCI) and subsequently reclassified into revenues to offset the hedged exposures as they occur.

COEX
8.188

We considered the historical trends in currency exchange rates and determined that it was reasonably possible that changes in exchange rates of 20% could be experienced in the near term. If the U.S. dollar weakened by 20% as of December 31, 2014 and December 31, 2015, the amount recorded in AOCI reflecting intrinsic value related to our

foreign exchange options before tax effect would have been approximately $686 million and $280 million lower as of December 31, 2014 and December 31, 2015, and the total amount of expense recorded as other income (expense), net, would have been approximately $90 million and $275 million higher in the years ended December 31, 2014 and December 31, 2015. If the U.S. dollar strengthened by 20% as of December 31, 2014 and December 31, 2015, the amount recorded in accumulated AOCI related to our foreign exchange options before tax effect would have been approximately $2.5 billion and $3.1 billion higher as of December 31, 2014 and December 31, 2015, and the total amount of expense recorded as other income (expense), net, would have been approximately $164 million and $372 million higher in the years ended December 31, 2014 and December 31, 2015. In both scenarios, the change in the intrinsic value would be expected to offset a corresponding foreign currency change in forecasted hedged revenues when recognized.

In addition, we use foreign exchange forward contracts to offset the foreign exchange risk on our assets and liabilities denominated in currencies other than the local currency of the subsidiary. These forward contracts reduce, but do not entirely eliminate the impact of currency exchange rate movements on our assets and liabilities. The foreign currency gains and losses on the assets and liabilities are recorded in other income (expense), net, which are offset by the gains and losses on the forward contracts.

We considered the historical trends in currency exchange rates and determined that it was reasonably possible that adverse changes in exchange rates of 20% for all currencies could be experienced in the near term. These reasonably possible adverse changes in exchange rates of 20% were applied to total monetary assets and liabilities denominated in currencies other than the local currencies at the balance sheet dates to compute the adverse impact these changes would have had on our income before income taxes in the near term. These changes would have resulted in an adverse impact on income before income taxes of approximately $93 million and $122 million as of December 31, 2014 and December 31, 2015. The adverse impact as of December 31, 2014 and December 31, 2015 is after consideration of the offsetting effect of approximately $948 million and $1.1 billion from foreign exchange contracts in place for the months of December 31, 2014 and December 31, 2015.

Interest Rate Risk

Our investment strategy is to achieve a return that will allow us to preserve capital and maintain liquidity requirements. We invest primarily in debt securities including those of the U.S. government and its agencies, corporate debt securities, agency mortgage-backed securities, money market and other funds, municipal securities, time deposits, asset backed securities, and debt instruments issued by foreign governments. By policy, we limit the amount of credit exposure to any one issuer. Our investments in both fixed rate and floating rate interest earning securities carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than predicted if interest rates fall. As of December 31, 2014 and December 31, 2015, unrealized losses on our marketable debt securities were primarily due to temporary interest rate fluctuations as a result of higher market interest rates compared to interest rates at the time of purchase. We account for both fixed and variable rate securities at fair value with changes on gains and losses recorded in AOCI until the securities are sold. We use interest rate derivative contracts to hedge gains and losses on our securities. These derivative contracts are accounted for as hedges at fair value with changes in fair value recorded in other income (expense), net.

We considered the historical volatility of short-term interest rates and determined that it was reasonably possible that an adverse change of 100 basis points could be experienced in the near term. A hypothetical 1.00% (100 basis points) increase in interest rates would have resulted in a decrease in the fair value of our marketable securities of approximately $1.2 billion and $1.3 billion as of December 31, 2014 and December 31, 2015.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Alphabet Inc. and Google Inc.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

	Page
Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm	45
Financial Statements of Alphabet Inc.:	
Consolidated Balance Sheets	48
Consolidated Statements of Income	49
Consolidated Statements of Comprehensive Income	50
Consolidated Statements of Stockholders' Equity	51
Consolidated Statements of Cash Flows	52
Financial Statements of Google Inc.:	
Consolidated Balance Sheets	53
Consolidated Statements of Income	54
Consolidated Statements of Comprehensive Income	55
Consolidated Statements of Stockholders' Equity	56
Consolidated Statements of Cash Flows	57
Notes to Consolidated Financial Statements (Alphabet Inc. and Google Inc.)	58

The supplementary financial information required by this Item 8 is included in Item 7 under the caption "Quarterly Results of Operations."

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Alphabet Inc.

We have audited the accompanying consolidated balance sheets of Alphabet Inc. as of December 31, 2014 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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. 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 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 Alphabet Inc. as of December 31, 2014 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Alphabet Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 11, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
February 11, 2016

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Google Inc.

We have audited the accompanying consolidated balance sheets of Google Inc. as of December 31, 2014 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015. Our audits also included the financial statement schedule listed in the Index at Item 15(a)2. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements 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. 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 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 Google Inc. as of December 31, 2014 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Google Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 11, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
February 11, 2016

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Alphabet Inc.

We have audited Alphabet Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Alphabet Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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.

In our opinion, Alphabet Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Alphabet Inc. as of December 31, 2014 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015 of Alphabet Inc. and our report dated February 11, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
February 11, 2016

REPORT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders of Google Inc.

We have audited Google Inc.'s internal control over financial reporting as of December 31, 2015, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Google Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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.

In our opinion, Google Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Google Inc. as of December 31, 2014 and 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2015 of Google Inc. and our report dated February 11, 2016 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

San Jose, California
February 11, 2016

Alphabet Inc.
CONSOLIDATED BALANCE SHEETS
(In millions, except share and par value amounts which are reflected in thousands, and par value per share amounts)

	As of December 31, 2014	As of December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 18,347	$ 16,549
Marketable securities	46,048	56,517
Total cash, cash equivalents, and marketable securities (including securities loaned of $4,058 and $4,531)	64,395	73,066
Accounts receivable, net of allowance of $225 and $296	9,383	11,556
Receivable under reverse repurchase agreements	875	450
Income taxes receivable, net	591	1,903
Prepaid revenue share, expenses and other assets	3,412	3,139
Total current assets	78,656	90,114
Prepaid revenue share, expenses and other assets, non-current	3,187	3,181
Non-marketable investments	3,079	5,183
Deferred income taxes	176	251
Property and equipment, net	23,883	29,016
Intangible assets, net	4,607	3,847
Goodwill	15,599	15,869
Total assets	$ 129,187	$ 147,461
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,715	$ 1,931
Short-term debt	2,009	3,225
Accrued compensation and benefits	3,069	3,539
Accrued expenses and other current liabilities	4,408	4,768
Accrued revenue share	1,952	2,329
Securities lending payable	2,778	2,428
Deferred revenue	752	788
Income taxes payable, net	96	302
Total current liabilities	16,779	19,310
Long-term debt	3,228	1,995
Deferred revenue, non-current	104	151
Income taxes payable, non-current	3,340	3,663
Deferred income taxes	758	189
Other long-term liabilities	1,118	1,822
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Convertible preferred stock, $0.001 par value per share, 100,000 shares authorized; no shares issued and outstanding	0	0

COEX
8.188

Class A and Class B common stock, and Class C capital stock and additional paid-in capital, $0.001 par value per share: 15,000,000 shares authorized (Class A 9,000,000, Class B 3,000,000, Class C 3,000,000); 680,172 (Class A 286,560, Class B 53,213, Class C 340,399) and par value of $680 (Class A $287, Class B $53, Class C $340) and 687,348 (Class A 292,297, Class B 50,295, Class C 344,756) and par value of $687 (Class A $292, Class B $50, Class C $345) shares issued and outstanding	28,767	32,982
Accumulated other comprehensive income (loss)	27	(1,874)
Retained earnings	75,066	89,223
Total stockholders' equity	103,860	120,331
Total liabilities and stockholders' equity	$ 129,187	$ 147,461

See accompanying notes.

Alphabet Inc.
CONSOLIDATED STATEMENTS OF INCOME
(In millions, except per share amounts)

	Year Ended December 31,		
	2013	2014	2015
Revenues	$ 55,519	$ 66,001	$ 74,989
Costs and expenses:			
Cost of revenues	21,993	25,691	28,164
Research and development	7,137	9,832	12,282
Sales and marketing	6,554	8,131	9,047
General and administrative	4,432	5,851	6,136
Total costs and expenses	40,116	49,505	55,629
Income from operations	15,403	16,496	19,360
Other income (expense), net	496	763	291
Income from continuing operations before income taxes	15,899	17,259	19,651
Provision for income taxes	2,739	3,639	3,303
Net income from continuing operations	$ 13,160	$ 13,620	$ 16,348
Net income (loss) from discontinued operations	(427)	516	0
Net income	$ 12,733	$ 14,136	$ 16,348
Less: Adjustment Payment to Class C capital stockholders	0	0	522
Net income available to all stockholders	$ 12,733	$ 14,136	$ 15,826
Basic net income (loss) per share of Class A and B common stock:			
Continuing operations	$ 19.77	$ 20.15	$ 23.11
Discontinued operations	(0.64)	0.76	0.00
Basic net income per share of Class A and B common stock	$ 19.13	$ 20.91	$ 23.11
Basic net income (loss) per share of Class C capital stock:			
Continuing operations	$ 19.77	$ 20.15	$ 24.63
Discontinued operations	(0.64)	0.76	0.00
Basic net income per share of Class C capital stock	$ 19.13	$ 20.91	$ 24.63
Diluted net income (loss) per share of Class A and B common stock:			
Continuing operations	$ 19.42	$ 19.82	$ 22.84
Discontinued operations	(0.63)	0.75	0.00
Diluted net income per share of Class A and B common stock	$ 18.79	$ 20.57	$ 22.84
Diluted net income (loss) per share of Class C capital stock:			
Continuing operations	$ 19.42	$ 19.82	$ 24.34
Discontinued operations	(0.63)	0.75	0.00
Diluted net income per share of Class C capital stock	$ 18.79	$ 20.57	$ 24.34

See accompanying notes.

Alphabet Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Year Ended December 31,		
	2013	2014	2015
Net income	$ 12,733	$ 14,136	$ 16,348
Other comprehensive income (loss):			
Change in foreign currency translation adjustment	89	(996)	(1,067)
Available-for-sale investments:			
Change in net unrealized gains (losses)	(392)	505	(715)
Less: reclassification adjustment for net (gains) losses included in net income	(162)	(134)	208
Net change (net of tax effect of $212, $60, and $29)	(554)	371	(507)
Cash flow hedges:			
Change in net unrealized gains	112	651	676
Less: reclassification adjustment for net gains included in net income	(60)	(124)	(1,003)
Net change (net of tax effect of $30, $196, and $115)	52	527	(327)
Other comprehensive loss	(413)	(98)	(1,901)
Comprehensive income	$ 12,320	$ 14,038	$ 14,447

See accompanying notes.

Alphabet Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions, except share amounts which are reflected in thousands)

	Class A and Class B Common Stock, Class C Capital Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance as of December 31, 2012	659,958	$ 22,835	$ 538	$ 48,197	$ 71,570
Common stock issued	11,706	1,174	0	0	1,174
Stock-based compensation expense		3,343	0	0	3,343
Stock-based compensation tax benefits		449	0	0	449
Tax withholding related to vesting of restricted stock units		(1,879)	0	0	(1,879)
Net income		0	0	12,733	12,733
Other comprehensive loss		0	(413)	0	(413)
Balance as of December 31, 2013	671,664	25,922	125	60,930	86,977
Common and capital stock issued	8,508	465	0	0	465
Stock-based compensation expense		4,279	0	0	4,279
Stock-based compensation tax benefits		625	0	0	625
Tax withholding related to vesting of restricted stock units		(2,524)	0	0	(2,524)
Net income		0	0	14,136	14,136
Other comprehensive loss		0	(98)	0	(98)
Balance as of December 31, 2014	680,172	28,767	27	75,066	103,860
Common and capital stock issued	8,714	664	0	0	664
Stock-based compensation expense		5,151	0	0	5,151
Stock-based compensation tax benefits		815	0	0	815
Tax withholding related to vesting of restricted stock units		(2,779)	0	0	(2,779)
Repurchases of capital stock	(2,391)	(111)	0	(1,669)	(1,780)
Adjustment Payment to Class C capital stockholders	853	475	0	(522)	(47)
Net income		0	0	16,348	16,348
Other comprehensive loss		0	(1,901)	0	(1,901)
Balance as of December 31, 2015	687,348	$ 32,982	$ (1,874)	$ 89,223	$ 120,331

See accompanying notes.

Alphabet Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year Ended December 31,		
	2013	2014	2015
Operating activities			
Net income	$ 12,733	$ 14,136	$ 16,348
Adjustments:			
Depreciation and impairment of property and equipment	2,781	3,523	4,132
Amortization and impairment of intangible assets	1,158	1,456	931
Stock-based compensation expense	3,343	4,279	5,203
Excess tax benefits from stock-based award activities	(481)	(648)	(548)
Deferred income taxes	(437)	(104)	(179)
Gain on divestiture of business	(700)	(740)	0
(Gain) loss on marketable and non-marketable investments, net	(166)	(390)	334
Other	272	192	212
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(1,307)	(1,641)	(2,094)
Income taxes, net	588	591	(179)
Prepaid revenue share, expenses and other assets	(930)	459	(318)
Accounts payable	605	436	203
Accrued expenses and other liabilities	713	757	1,597
Accrued revenue share	254	245	339
Deferred revenue	233	(175)	43
Net cash provided by operating activities	18,659	22,376	26,024
Investing activities			
Purchases of property and equipment	(7,358)	(10,959)	(9,915)
Purchases of marketable securities	(45,444)	(56,310)	(74,368)
Maturities and sales of marketable securities	38,314	51,315	62,905
Purchases of non-marketable investments	(569)	(1,227)	(2,172)
Cash collateral related to securities lending	(299)	1,403	(350)
Investments in reverse repurchase agreements	600	(775)	425
Proceeds from divestiture of business	2,525	386	0
Acquisitions, net of cash acquired, and purchases of intangibles and other assets	(1,448)	(4,888)	(236)
Net cash used in investing activities	(13,679)	(21,055)	(23,711)
Financing activities			
Net payments related to stock-based award activities	(781)	(2,069)	(2,375)
Excess tax benefits from stock-based award activities	481	648	548
Adjustment Payment to Class C capital stockholders	0	0	(47)
Repurchases of capital stock	0	0	(1,780)
Proceeds from issuance of debt, net of costs	10,768	11,625	13,705

COEX
8.188

Repayments of debt	(11,325)	(11,643)	(13,728)
Net cash used in financing activities	(857)	(1,439)	(3,677)
Effect of exchange rate changes on cash and cash equivalents	(3)	(433)	(434)
Net increase (decrease) in cash and cash equivalents	4,120	(551)	(1,798)
Cash and cash equivalents at beginning of period	14,778	18,898	18,347
Cash and cash equivalents at end of period	$ 18,898	$ 18,347	$ 16,549
Supplemental disclosures of cash flow information			
Cash paid for taxes	$ 1,932	$ 2,819	$ 3,338
Cash paid for interest	72	86	96

See accompanying notes.

Google Inc.
CONSOLIDATED BALANCE SHEETS
(In millions, except share and par value amounts which are reflected in thousands, and par value per share amounts)

	As of December 31, 2014	As of December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 18,347	$ 16,549
Marketable securities	46,048	56,517
Total cash, cash equivalents, and marketable securities (including securities loaned of $4,058 and $4,531)	64,395	73,066
Accounts receivable, net of allowance of $225 and $296	9,383	11,556
Receivable under reverse repurchase agreements	875	450
Income taxes receivable, net	591	1,903
Prepaid revenue share, expenses and other assets	3,412	3,139
Total current assets	78,656	90,114
Prepaid revenue share, expenses and other assets, non-current	3,187	3,181
Non-marketable investments	3,079	5,183
Deferred income taxes	176	251
Property and equipment, net	23,883	29,016
Intangible assets, net	4,607	3,847
Goodwill	15,599	15,869
Total assets	$ 129,187	$ 147,461
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	$ 1,715	$ 1,931
Short-term debt	2,009	3,225
Accrued compensation and benefits	3,069	3,539
Accrued expenses and other current liabilities	4,408	4,768
Accrued revenue share	1,952	2,329
Securities lending payable	2,778	2,428
Deferred revenue	752	788
Income taxes payable, net	96	302
Total current liabilities	16,779	19,310
Long-term debt	3,228	1,995
Deferred revenue, non-current	104	151
Income taxes payable, non-current	3,340	3,663
Deferred income taxes	758	189
Other long-term liabilities	1,118	1,822
Commitments and contingencies (Note 11)		

COEX
8.188

Stockholders' equity:		
Convertible preferred stock, $0.001 par value per share; 100,000 shares authorized, no shares issued and outstanding; 0.5 shares authorized, no shares issued and outstanding	0	0
Class A and Class B common stock, and Class C capital stock and additional paid-in capital, $0.001 par value per share: 15,000,000 shares authorized (Class A 9,000,000, Class B 3,000,000, Class C 3,000,000); 680,172 (Class A 286,560, Class B 53,213, Class C 340,399), and par value of $680 (Class A $287, Class B $53, Class C $340); and 1.5 shares authorized (Class A 0.5, Class B 0.5, Class C 0.5); 0.3 (Class A 0.1, Class B 0.1, Class C 0.1), and par value of $0, shares issued and outstanding	28,767	31,313
Accumulated other comprehensive income (loss)	27	(1,874)
Retained earnings	75,066	90,892
Total stockholders' equity	103,860	120,331
Total liabilities and stockholders' equity	$ 129,187	$ 147,461

See accompanying notes.

Google Inc.
CONSOLIDATED STATEMENTS OF INCOME
(In millions)

	Year Ended December 31,		
	2013	2014	2015
Revenues	$ 55,519	$ 66,001	$ 74,989
Costs and expenses:			
Cost of revenues	21,993	25,691	28,164
Research and development	7,137	9,832	12,282
Sales and marketing	6,554	8,131	9,047
General and administrative	4,432	5,851	6,136
Total costs and expenses	40,116	49,505	55,629
Income from operations	15,403	16,496	19,360
Other income (expense), net	496	763	291
Income from continuing operations before income taxes	15,899	17,259	19,651
Provision for income taxes	2,739	3,639	3,303
Net income from continuing operations	$ 13,160	$ 13,620	$ 16,348
Net income (loss) from discontinued operations	(427)	516	0
Net income	$ 12,733	$ 14,136	$ 16,348
Less: Adjustment Payment to Class C capital stockholders	0	0	522
Net income available to all stockholders	$ 12,733	$ 14,136	$ 15,826

See accompanying notes.

Google Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In millions)

	Year Ended December 31,		
	2013	2014	2015
Net income	$ 12,733	$ 14,136	$ 16,348
Other comprehensive income (loss):			
Change in foreign currency translation adjustment	89	(996)	(1,067)
Available-for-sale investments:			
Change in net unrealized gains (losses)	(392)	505	(715)
Less: reclassification adjustment for net (gains) losses included in net income	(162)	(134)	208
Net change (net of tax effect of $212, $60, and $29)	(554)	371	(507)
Cash flow hedges:			
Change in net unrealized gains	112	651	676
Less: reclassification adjustment for net gains included in net income	(60)	(124)	(1,003)
Net change (net of tax effect of $30, $196, and $115)	52	527	(327)
Other comprehensive loss	(413)	(98)	(1,901)
Comprehensive income	$ 12,320	$ 14,038	$ 14,447

See accompanying notes.

Google Inc.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(In millions, except share amounts which are reflected in thousands)

	Class A and Class B Common Stock, Class C Capital Stock and Additional Paid-In Capital		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount			
Balance as of December 31, 2012	659,958	$ 22,835	$ 538	$ 48,197	$ 71,570
Common stock issued	11,706	1,174	0	0	1,174
Stock-based compensation expense		3,343	0	0	3,343
Stock-based compensation tax benefits		449	0	0	449
Tax withholding related to vesting of restricted stock units		(1,879)	0	0	(1,879)
Net income		0	0	12,733	12,733
Other comprehensive loss		0	(413)	0	(413)
Balance as of December 31, 2013	671,664	25,922	125	60,930	86,977
Common and capital stock issued	8,508	465	0	0	465
Stock-based compensation expense		4,279	0	0	4,279
Stock-based compensation tax benefits		625	0	0	625
Tax withholding related to vesting of restricted stock units		(2,524)	0	0	(2,524)
Net income		0	0	14,136	14,136
Other comprehensive loss		0	(98)	0	(98)
Balance as of December 31, 2014	680,172	28,767	27	75,066	103,860
Common and capital stock issued	6,659	331	0	0	331
Stock-based compensation expense		5,151	0	0	5,151
Stock-based compensation tax benefits		815	0	0	815
Tax withholding related to vesting of restricted stock units		(1,954)	0	0	(1,954)
Alphabet share exchange	(687,684)	0	0	0	0
Capital transactions with Alphabet		(2,272)	0	0	(2,272)
Adjustment Payment to Class C capital stockholders	853	475	0	(522)	(47)
Net income		0	0	16,348	16,348
Other comprehensive loss		0	(1,901)	0	(1,901)
Balance as of December 31, 2015	0	$ 31,313	$ (1,874)	$ 90,892	$ 120,331

See accompanying notes.

Google Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Year Ended December 31,		
	2013	2014	2015
Operating activities			
Net income	$ 12,733	$ 14,136	$ 16,348
Adjustments:			
Depreciation and impairment of property and equipment	2,781	3,523	4,132
Amortization and impairment of intangible assets	1,158	1,456	931
Stock-based compensation expense	3,343	4,279	5,203
Excess tax benefits from stock-based award activities	(481)	(648)	(548)
Deferred income taxes	(437)	(104)	(179)
Gain on divestiture of business	(700)	(740)	0
(Gain) loss on marketable and non-marketable investments, net	(166)	(390)	334
Other	272	192	212
Changes in assets and liabilities, net of effects of acquisitions:			
Accounts receivable	(1,307)	(1,641)	(2,094)
Income taxes, net	588	591	(179)
Prepaid revenue share, expenses and other assets	(930)	459	(318)
Accounts payable	605	436	203
Accrued expenses and other liabilities	713	757	1,597
Accrued revenue share	254	245	339
Deferred revenue	233	(175)	43
Net cash provided by operating activities	18,659	22,376	26,024
Investing activities			
Purchases of property and equipment	(7,358)	(10,959)	(9,915)
Purchases of marketable securities	(45,444)	(56,310)	(74,368)
Maturities and sales of marketable securities	38,314	51,315	62,905
Purchases of non-marketable investments	(569)	(1,227)	(2,172)
Cash collateral related to securities lending	(299)	1,403	(350)
Investments in reverse repurchase agreements	600	(775)	425
Proceeds from divestiture of business	2,525	386	0
Acquisitions, net of cash acquired, and purchases of intangibles and other assets	(1,448)	(4,888)	(236)
Net cash used in investing activities	(13,679)	(21,055)	(23,711)
Financing activities			
Net payments related to stock-based award activities	(781)	(2,069)	(1,612)
Excess tax benefits from stock-based award activities	481	648	548
Adjustment Payment to Class C capital stockholders	0	0	(47)
Capital transactions with Alphabet	0	0	(2,543)
Proceeds from issuance of debt, net of costs	10,768	11,625	13,705

COEX
8.188

Repayments of debt	(11,325)	(11,643)	(13,728)
Net cash used in financing activities	(857)	(1,439)	(3,677)
Effect of exchange rate changes on cash and cash equivalents	(3)	(433)	(434)
Net increase (decrease) in cash and cash equivalents	4,120	(551)	(1,798)
Cash and cash equivalents at beginning of period	14,778	18,898	18,347
Cash and cash equivalents at end of period	$ 18,898	$ 18,347	$ 16,549
Supplemental disclosures of cash flow information			
Cash paid for taxes	$ 1,932	$ 2,819	$ 3,338
Cash paid for interest	72	86	96

See accompanying notes.

Alphabet Inc. and Google Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

We were incorporated in California in September 1998 and re-incorporated in the State of Delaware in August 2003. We generate revenues primarily by delivering relevant, cost-effective online advertising.

On April 17, 2013, we sold the Motorola Home business (Motorola Home) to Arris Group, Inc. (Arris). The financial results of Motorola Home are presented as net income (loss) from discontinued operations on the Consolidated Statements of Income for the year ended December 31, 2013. See Note 9 for further discussion of the sale.

On April 2, 2014, we completed a two-for-one stock split effected in the form of a stock dividend (the Stock Split). All references made to share or per share amounts in the accompanying consolidated financial statements and applicable disclosures have been retroactively adjusted to reflect the Stock Split. See Note 12 for additional information about the Stock Split.

On October 29, 2014, we sold the Motorola Mobile business (Motorola Mobile) to Lenovo Group Limited (Lenovo). The financial results of Motorola Mobile are presented as net income (loss) from discontinued operations on the Consolidated Statements of Income for the years ended December 31, 2013 and 2014. See Note 9 for further discussion of the sale.

On August 10, 2015, we announced plans to create a new public holding company, Alphabet Inc. (Alphabet), and a new operating structure. On October 2, 2015, we implemented the holding company reorganization, and as a result, Alphabet became the successor issuer to Google Inc. (Google).

The implementation of the holding company reorganization on October 2, 2015 was accounted for as a merger under common control. Alphabet has recognized the assets and liabilities of Google at carryover basis. The consolidated financial statements of Alphabet present comparative information for prior years on a combined basis, as if both Alphabet and Google were under common control for all periods presented.

The consolidated financial statements and notes thereto are being presented in a combined report being filed by two separate registrants: Alphabet and Google. The Consolidated Statements of Stockholders' Equity and Consolidated Statements of Cash Flows are the only statements with differences between Alphabet and Google. The differences relate to transactions between Alphabet and Google which are accounted for as capital transactions. Refer to Note 13 for additional information.

Basis of Consolidation

The consolidated financial statements of Alphabet and Google include the accounts of Alphabet and Google, respectively, and all wholly owned subsidiaries as well as all variable interest entities where we are the primary beneficiary. All intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires us to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. On an ongoing basis, we evaluate our estimates, including those related to the accounts receivable and sales allowances, fair values of financial instruments, intangible assets and goodwill, useful lives of intangible assets and property and equipment, income taxes, and contingent liabilities, among others. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

Revenue Recognition

The following table presents our revenues by segment and revenue source (in millions):

	Year Ended December 31,		
	2013	2014	2015
Google segment			
Google websites	$ 37,422	$ 45,085	$ 52,357
Google Network Members' websites [1]	13,650	14,539	15,033
Google advertising revenues	51,072	59,624	67,390
Google other revenues [1]	4,435	6,050	7,151
Google segment revenues	$ 55,507	$ 65,674	$ 74,541
Other Bets			
Other Bets revenues	$ 12	$ 327	$ 448
Consolidated revenues	$ 55,519	$ 66,001	$ 74,989

(1) Prior period amounts have been adjusted to reflect the reclassification primarily related to DoubleClick ad serving software revenues from Google other revenues to Advertising Revenues from Google Network Members' websites to conform with current period presentation.

We generate revenues primarily by delivering performance and brand advertising. Performance advertising creates and delivers relevant ads that users will click, leading to direct engagement with advertisers. Brand advertising enhances users' awareness of and affinity with advertisers' products and services, through videos, text, images, and other ads that run across various devices.

Google AdWords is our auction-based advertising program that enables performance advertisers to place text-based and display ads on Google websites and our Google Network Members' websites. Google AdSense refers to the online programs through which we distribute our advertisers' AdWords ads for display on our Google Network Members' websites. Most of our customers pay us on a cost-per-click basis, which means that an advertiser pays us only when a user engages with the ads by clicking on an ad on Google websites or Google Network Members' websites or by viewing YouTube engagement ads like TrueView (counted as an engagement when the user chooses not to skip the ad). We also offer advertising on a cost-per-impression basis that enables our brand advertisers to pay us based on the number of times their ads display on Google websites and our Google Network Members' websites as specified by the advertisers.

Revenue from advertising is recognized when the services have been provided or delivered, the fees we charge are fixed or determinable, we and our advertisers or other customers understand the specific nature and terms of the agreed upon transactions, and collectability is reasonably assured. We recognize as revenues the fees charged to advertisers each time a user clicks on one of the ads that appears next to the search results or content on Google websites or our Google Network Members' websites. For those advertisers using our cost-per-impression pricing, we recognize as revenues the fees charged to advertisers each time their ads are displayed on Google websites or our Google Network Members' websites. We report our Google AdSense revenues and traffic acquisition costs due to our Google Network Members on a gross basis principally because we are the primary obligor to our advertisers.

Revenue from hardware sales to end customers or through distribution channels is generally recognized when products have been shipped, risk of loss has transferred to the customer, objective evidence exists that customer acceptance provisions have been met, no significant obligations remain and allowances for discounts, price protection, returns and customer incentives can be reasonably and reliably estimated. Revenues are reported net of these allowances. Where these allowances cannot be reasonably and reliably estimated, we recognize revenue at the time the product sells through the distribution channel to the end customer or when the return period elapsed, as applicable.

For the sale of certain third-party products and services, we evaluate whether it is appropriate to recognize revenue based on the gross amount billed to the customers or the net amount earned as revenue share. Generally, when we record revenue on a gross basis, we are the primary obligor in a transaction, and have also considered other

COEX
8.188

factors, including whether we are subject to inventory risk or have latitude in establishing prices.

For multi-element arrangements, including those that contain software essential to hardware products' functionality and services, we allocate revenue to each unit of accounting based on their relative selling prices. In such circumstances, we use a hierarchy to determine the selling prices to be used for allocating revenue: (i) vendor-specific objective

evidence of fair value (VSOE), (ii) third-party evidence of selling price, and (iii) best estimate of the selling price (ESP). VSOE generally exists only when we sell the deliverable separately and is the price actually charged by us for that deliverable. ESPs reflect our best estimates of what the selling price of the deliverable would be if it was sold regularly on a stand-alone basis.

We record deferred revenues when cash payments are received in advance of our performance in the underlying agreement on the accompanying Consolidated Balance Sheets.

Cost of Revenues

Cost of revenues consists of traffic acquisition costs which are the advertising revenues shared with our Google Network Members and the amounts paid to our distribution partners who distribute our browser or otherwise direct search queries to our website.

Additionally, other costs of revenues includes the following:

- The expenses associated with the operation of our data centers (including depreciation, labor, energy, and bandwidth costs);
- Content acquisition costs primarily related to payments to certain content providers from whom we license their video and other content for distribution on YouTube and Google Play (we share most of the fees these sales generate with content providers or pay a fixed fee to these content providers);
- Credit card and other transaction fees related to processing customer transactions;
- Stock-based compensation expense;
- Revenue share payments to mobile carriers;
- Inventory costs for hardware we sell; and
- Amortization of certain intangible assets.

Stock-based Compensation

Restricted stock units (RSUs) are measured based on the fair market value of the underlying stock on the date of grant. Shares are issued on the vesting dates net of the minimum statutory tax withholding to be paid by us on behalf of our employees. As a result, the actual number of shares issued will be fewer than the actual number of RSUs outstanding. We record the liability for withholding amounts to be paid by us primarily as a reduction to additional paid-in capital when paid.

For stock option awards, we determined fair value using the Black-Scholes-Merton (BSM) option pricing model on the date of grant.

Stock-based compensation includes awards we expect to settle in Alphabet stock as well as awards we will ultimately settle in cash. We recognize stock-based compensation, less an estimate for forfeitures, using the straight-line method over the requisite service period. Additionally, stock-based compensation for liability classified awards reflect changes in fair value during the requisite service period.

We include as part of cash flows from financing activities the benefits of tax deductions in excess of the tax-effected compensation of the related stock-based awards for options exercised and RSUs vested during the period. During the years ended December 31, 2013, 2014, and 2015, the amount of cash received from the exercise of stock options was $1,174 million, $465 million, and $393 million, respectively.

We have elected to account for the indirect effects of stock-based awards -- primarily the research and development tax credit -- through the Consolidated Statements of Income. Total direct tax benefit realized, including the excess tax benefit, from stock-based award activities during the years ended December 31, 2013, 2014, and 2015, was $1,195 million, $1,356 million, and $1,544 million, respectively.

Certain Risks and Concentrations

Our revenues are primarily derived from online advertising, the market for which is highly competitive and rapidly changing. In addition, our revenues are generated from a multitude of vertical market segments in countries around the world. Significant changes in this industry or changes in customer buying or advertiser spending behavior could adversely affect our operating results.

We are subject to concentrations of credit risk principally from cash and cash equivalents, marketable securities, foreign exchange contracts, and accounts receivable. Cash equivalents and marketable securities consist primarily of time deposits, money market and other funds, including cash collateral received related to our securities lending

program, highly liquid debt instruments of the U.S. government and its agencies, debt instruments issued by foreign governments and municipalities in the U.S., corporate securities, agency mortgage-backed securities, and asset-backed securities. Foreign exchange contracts are transacted with various financial institutions with high credit standing.

Accounts receivable are typically unsecured and are derived from revenues earned from customers located around the world. In 2013, 2014, and 2015, we generated approximately 46%, 45%, and 46% of our revenues from customers based in the U.S., with the majority of revenues from customers outside of the U.S. located in Europe and Japan. We perform ongoing evaluations to determine customer credit and we limit the amount of credit we extend, but generally we do not require collateral from our customers. We maintain reserves for estimated credit losses and these losses have generally been within our expectations.

No individual customer or groups of affiliated customers represented more than 10% of our revenues in 2013, 2014, or 2015.

Fair Value of Financial Instruments

Our financial assets and financial liabilities that include cash equivalents, marketable securities, foreign currency and interest rate derivative contracts, and non-marketable debt securities are measured and recorded at fair value on a recurring basis. We measure certain financial assets at fair value for disclosure purposes, as well as, on a nonrecurring basis when they are deemed to be other-than-temporarily impaired. Our other current financial assets and our other current financial liabilities have fair values that approximate their carrying value.

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that is determined based on assumptions that market participants would use in pricing an asset or a liability. Assets and liabilities recorded at fair value are measured and classified in accordance with a three-tier fair value hierarchy based on the observability of the inputs available in the market used to measure fair value:

Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Include other inputs that 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 inputs are observable in the market or can be derived from observable market data. Where applicable, these models project future cash flows and discount the future amounts to a present value using market-based observable inputs including interest rate curves, foreign exchange rates, and credit ratings.

Level 3 - Unobservable inputs that are supported by little or no market activities.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Cash, Cash Equivalents, and Marketable Securities

We invest all excess cash primarily in debt securities including those of the U.S. government and its agencies, corporate debt securities, agency mortgage-backed securities, money market and other funds, municipal securities, time deposits, asset backed securities, and debt instruments issued by foreign governments.

We classify all investments that are readily convertible to known amounts of cash and have stated maturities of three months or less from the date of purchase as cash equivalents and those with stated maturities of greater than three months as marketable securities.

We determine the appropriate classification of our investments in marketable securities at the time of purchase and reevaluate such designation at each balance sheet date. We have classified and accounted for our marketable securities as available-for-sale. After consideration of our risk versus reward objectives, as well as our liquidity requirements, we may sell these securities prior to their stated maturities. As we view these securities as available to support current operations, we classify highly liquid securities with maturities beyond 12 months as current assets under the caption marketable securities in the accompanying Consolidated Balance Sheets. We carry these securities at fair value, and report the unrealized gains and losses, net of taxes, as a component of stockholders' equity, except for unrealized losses determined to be other-than-temporary, which we record within other income (expense), net. We determine any realized gains or losses on the sale of marketable securities on a specific identification method, and we record such gains and losses as a component of other income (expense), net.

Non-Marketable Investments

We have accounted for non-marketable equity investments either under the equity or cost method. Investments through which we exercise significant influence but do not have control over the investee are accounted for under the

equity method. Investments through which we are not able to exercise significant influence over the investee are accounted for under the cost method.

We have accounted for our non-marketable investments that meet the definition of a debt security as available-for-sale securities. Since these securities do not have contractual maturity dates and we do not intend to liquidate them in the next 12 months, we have classified them as non-current assets on the accompanying Consolidated Balance Sheet.

Variable Interest Entities

We make a determination at the start of each arrangement whether an entity in which we have made an investment is considered a Variable Interest Entity ("VIE"). We consolidate VIEs in which we have a controlling financial interest. If we do not have a controlling financial interest in a VIE, we account for the investment under either the equity or cost method.

Impairment of Marketable and Non-Marketable Investments

We periodically review our marketable and non-marketable investments for impairment. If we conclude that any of these investments are impaired, we determine whether such impairment is other-than-temporary. Factors we consider to make such determination include the duration and severity of the impairment, the reason for the decline in value and the potential recovery period and our intent to sell. For debt securities, we also consider whether (1) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis, and (2) the amortized cost basis cannot be recovered as a result of credit losses. If any impairment is considered other-than-temporary, we will write down the asset to its fair value and record the corresponding charge as other income (expense), net.

Accounts Receivable

We record accounts receivable at the invoiced amount and we normally do not charge interest. We maintain an allowance for doubtful accounts to reserve for potentially uncollectible receivables. We review the accounts receivable by amounts due by customers which are past due to identify specific customers with known disputes or collectability issues. In determining the amount of the reserve, we make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. We also maintain a sales allowance to reserve for potential credits issued to customers. We determine the amount of the reserve based on historical credits issued.

Property and Equipment

We account for property and equipment at cost less accumulated depreciation and amortization. We compute depreciation using the straight-line method over the estimated useful lives of the assets, generally two to five years. We depreciate buildings over periods up to 25 years. We amortize leasehold improvements over the shorter of the remaining lease term or the estimated useful lives of the assets. Construction in progress is the construction or development of property and equipment that have not yet been placed in service for our intended use. Depreciation for equipment commences once it is placed in service and depreciation for buildings and leasehold improvements commences once they are ready for our intended use. Land is not depreciated.

Software Development Costs

We expense software development costs, including costs to develop software products or the software component of products to be marketed to external users, before technological feasibility is reached. Technological feasibility is typically reached shortly before the release of such products and as a result, development costs that meet the criteria for capitalization were not material for the periods presented.

Software development costs also include costs to develop software to be used solely to meet internal needs and cloud based applications used to deliver our services. We capitalize development costs related to these software applications once the preliminary project stage is complete and it is probable that the project will be completed and the software will be used to perform the function intended. Costs capitalized for developing such software applications were not material for the periods presented.

Business Combinations

We include the results of operations of the businesses that we acquire as of the respective dates of acquisition. We allocate the fair value of the purchase price of our acquisitions to the assets acquired and liabilities assumed based on their estimated fair values. The excess of the fair value of the purchase price over the fair values of these identifiable assets and liabilities is recorded as goodwill.

Long-Lived Assets Including Goodwill and Other Acquired Intangible Assets

We review property and equipment, long-term prepayments and intangible assets, excluding goodwill, for

impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be

recoverable. We measure recoverability of these assets by comparing the carrying amounts to the future undiscounted cash flows that the assets or the asset group are expected to generate. If the assets are considered to be impaired, the impairment to be recognized equals the amount by which the carrying value of the asset exceeds its fair market value. In 2014, we recorded impairments of intangible assets, including an impairment of $378 million in the third quarter of 2014 related to a patent licensing royalty asset. Impairments of intangible assets were not material in 2015.

We allocate goodwill to reporting units based on the reporting unit expected to benefit from the business combination. We evaluate our reporting units when changes in our operating structure occur, and if necessary, reassign goodwill using a relative fair value allocation approach. We test our goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. No goodwill impairment has been identified in any of the years presented.

Intangible assets with definite lives are amortized over their estimated useful lives. We amortize our acquired intangible assets on a straight-line basis with definite lives over periods ranging from one to twelve years.

Income Taxes

We account for income taxes using the asset and liability method, under which we recognize the amount of taxes payable or refundable for the current year and deferred tax assets and liabilities for the future tax consequences of events that have been recognized in our financial statements or tax returns. We measure current and deferred tax assets and liabilities based on provisions of enacted tax law. We evaluate the realization of our deferred tax assets based on all available evidence and establish a valuation allowance to reduce deferred tax assets when it is more-likely-than-not that they will not be realized.

We recognize the financial statement effects of a tax position when it is more-likely-than not that, based on technical merits, the position will be sustained upon examination. The tax benefits of the position recognized in the financial statements are then measured based on the largest amount of benefit that is greater than 50% likely to be realized upon settlement with a taxing authority. In addition, we recognize interest and penalties related to unrecognized tax benefits as a component of the income tax provision.

Foreign Currency

Generally, the functional currency of our international subsidiaries is the local currency. We translate the financial statements of these subsidiaries to U.S. dollars using month-end exchange rates for assets and liabilities, and average rates for the annual period derived from month-end exchange rates for revenues, costs, and expenses. We record translation gains and losses in accumulated other comprehensive income as a component of stockholders' equity. We reflect net foreign exchange transaction gains and losses resulting from the conversion of the transaction currency to functional currency as a component of foreign currency exchange losses in other income (expense), net.

Advertising and Promotional Expenses

We expense advertising and promotional costs in the period in which they are incurred. For the years ended December 31, 2013, 2014 and 2015, advertising and promotional expenses totaled approximately $2,389 million, $3,004 million, and $3,186 million.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2014-09 (ASU 2014-09) "Revenue from Contracts with Customers." ASU 2014-09 supersedes the revenue recognition requirements in “Revenue Recognition (Topic 605)”, and requires entities to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. As currently issued and amended, ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, though early adoption is permitted for annual reporting periods beginning after December 15, 2016. We are currently in the process of evaluating the impact of the adoption of ASU 2014-09 on our consolidated financial statements, implementing accounting system changes related to the adoption, and considering additional disclosure requirements.

In June 2014, the FASB issued Accounting Standards Update No. 2014-10 (ASU 2014-10) "Development Stage Entities (Topic 915): Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation." ASU 2014-10 removes the definition of a development stage entity from the Master Glossary of the Accounting Standards Codification (ASC) thereby removing the financial reporting distinction between development stage entities and other reporting entities. The additional elimination of

related consolidation guidance will require companies with interests in development stage entities to reassess whether such entities are variable interest entities under ASC Topic 810, Consolidation. We will adopt this standard in the first quarter

of 2016 on a retrospective basis. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

In February 2015, the FASB issued Accounting Standards Update No. 2015-02 (ASU 2015-02) "Consolidation (Topic 810): Amendments to the Consolidation Analysis." ASU 2015-02 changes the analysis that a reporting entity must perform to determine whether it should consolidate certain types of legal entities. We will adopt this standard in the first quarter of 2016 on a retrospective basis. We do not expect the adoption of this standard to have a material impact on our consolidated statement of operations or consolidated balance sheet, but it may result in additional disclosures.

In November 2015, the FASB issued Accounting Standards Update No. 2015-17 (ASU 2015-17) “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes”. ASU 2015-17 simplifies the presentation of deferred income taxes by eliminating the separate classification of deferred income tax liabilities and assets into current and noncurrent amounts in the consolidated balance sheet statement of financial position. The amendments in the update require that all deferred tax liabilities and assets be classified as noncurrent in the consolidated balance sheet. The amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods therein and may be applied either prospectively or retrospectively to all periods presented. Early adoption is permitted. We have early adopted this standard in the fourth quarter of 2015 on a retrospective basis. Prior periods have been retrospectively adjusted.

As a result of the adoption of ASU 2015-17, the Company made the following adjustments to the 2014 balance sheet: a $1,322 million decrease to current deferred tax assets, a $83 million increase to noncurrent deferred tax asset, a $26 million decrease to current deferred tax liability, and a decrease of $1,213 million to noncurrent deferred tax liability.

In January 2016, the FASB issued Accounting Standards Update No. 2016-01 (ASU 2016-01) "Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." ASU 2016-01 amends various aspects of the recognition, measurement, presentation, and disclosure for financial instruments. With respect to our consolidated financial statements, the most significant impact relates to the accounting for equity investments. It will impact the disclosure and presentation of financial assets and liabilities. ASU 2016-01 is effective for annual reporting periods, and interim periods within those years beginning after December 15, 2017. Early adoption by public entities is permitted only for certain provisions. We are currently in the process of evaluating the impact of the adoption of this standard on our consolidated financial statements.

Revision of Previously Issued Financial Statements

In the second quarter of 2015, we identified an incorrect classification of certain revenues between legal entities, and as a consequence, we revised our income tax expense for periods beginning in 2008 through the first quarter of 2015 in the cumulative amount of $711 million. We evaluated the materiality of the income tax expense impact quantitatively and qualitatively and concluded it was not material to any of the prior periods impacted and that correction of income tax expense as an out of period adjustment in the quarter ended June 30, 2015 would not be material to our consolidated financial statements for the year ending December 31, 2015. Consolidated revenues are not impacted. We elected to revise previously issued consolidated financial statements for the periods impacted. Refer to Note 17 for additional information.

Prior Period Reclassifications

Certain amounts in prior periods have been reclassified to conform with current period presentation.

Note 2. Financial Instruments

We classify our cash equivalents and marketable securities within Level 1 or Level 2 in the fair value hierarchy because we use quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value. We classify our foreign currency and interest rate derivative contracts primarily within Level 2 in the fair value hierarchy as the valuation inputs are based on quoted prices and market observable data of similar instruments.

Cash, Cash Equivalents, and Marketable Securities

The following tables summarize our cash, cash equivalents and marketable securities by significant investment categories as of December 31, 2014 and 2015 (in millions):

	As of December 31, 2014					
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities
Cash	$ 9,863	$ 0	$ 0	$ 9,863	$ 9,863	$ 0
Level 1:						
Money market and other funds	2,532	0	0	2,532	2,532	0
U.S. government notes	15,320	37	(4)	15,353	1,128	14,225
Marketable equity securities	988	428	(64)	1,352	0	1,352
	18,840	465	(68)	19,237	3,660	15,577
Level 2:						
Time deposits[1]	2,409	0	0	2,409	2,309	100
Money market and other funds[2]	1,762	0	0	1,762	1,762	0
Fixed-income bond funds[3]	385	0	(38)	347	0	347
U.S. government agencies	2,327	8	(1)	2,334	750	1,584
Foreign government bonds	1,828	22	(10)	1,840	0	1,840
Municipal securities	3,370	33	(6)	3,397	3	3,394
Corporate debt securities	11,499	114	(122)	11,491	0	11,491
Agency mortgage-backed securities	8,196	109	(42)	8,263	0	8,263
Asset-backed securities	3,456	1	(5)	3,452	0	3,452
	35,232	287	(224)	35,295	4,824	30,471
Total	$ 63,935	$ 752	$ (292)	$ 64,395	$ 18,347	$ 46,048

	As of December 31, 2015					
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash and Cash Equivalents	Marketable Securities
Cash	$ 7,380	$ 0	$ 0	$ 7,380	$ 7,380	$ 0
Level 1:						
Money market and other funds	5,623	0	0	5,623	5,623	0
U.S. government notes	20,922	27	(48)	20,901	258	20,643
Marketable equity securities	692	155	0	847	0	847
	27,237	182	(48)	27,371	5,881	21,490
Level 2:						
Time deposits[1]	3,223	0	0	3,223	2,012	1,211
Money market and other funds[2]	1,140	0	0	1,140	1,140	0
Fixed-income bond funds[3]	219	0	0	219	0	219
U.S. government agencies	1,367	2	(3)	1,366	0	1,366
Foreign government bonds	2,242	14	(23)	2,233	0	2,233
Municipal securities	3,812	47	(4)	3,855	0	3,855
Corporate debt securities	13,809	53	(278)	13,584	136	13,448

COEX
8.188

Agency mortgage-backed securities	9,680	48	(57)	9,671	0	9,671
Asset-backed securities	3,032	0	(8)	3,024	0	3,024
	38,524	164	(373)	38,315	3,288	35,027
Total	$ 73,141	$ 346	$ (421)	$ 73,066	$ 16,549	$ 56,517

(1) The majority of our time deposits are foreign deposits.

(2) The balances as of December 31, 2014 and 2015 were related to cash collateral received in connection with our securities lending program, which was invested in reverse repurchase agreements maturing within three months. See section titled "Securities Lending Program" below for further discussion of this program.

(3) Fixed-income bond funds consist of mutual funds that primarily invest in corporate and government bonds.

We determine realized gains or losses on the marketable securities on a specific identification method. We recognized gross realized gains of $416 million, $238 million, and $357 million for the years ended December 31,

2013, 2014, and 2015. We recognized gross realized losses of $258 million, $85 million, and $565 million for the years ended December 31, 2013, 2014, and 2015. We reflect these gains and losses as a component of other income (expense), net, in the accompanying Consolidated Statements of Income.

The following table summarizes the estimated fair value of our investments in marketable debt securities, accounted for as available-for-sale securities and classified by the contractual maturity date of the securities (in millions):

	As of December 31, 2015
Due in 1 year	$ 7,900
Due in 1 year through 5 years	30,141
Due in 5 years through 10 years	7,199
Due after 10 years	10,211
Total	$ 55,451

The following tables present gross unrealized losses and fair values for those investments that were in an unrealized loss position as of December 31, 2014 and 2015, aggregated by investment category and the length of time that individual securities have been in a continuous loss position (in millions):

	As of December 31, 2014					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government notes	$ 4,490	$ (4)	$ 0	$ 0	$ 4,490	$ (4)
U.S. government agencies	830	(1)	0	0	830	(1)
Foreign government bonds	255	(7)	43	(3)	298	(10)
Municipal securities	877	(3)	174	(3)	1,051	(6)
Corporate debt securities	5,851	(112)	225	(10)	6,076	(122)
Agency mortgage-backed securities	609	(1)	2,168	(41)	2,777	(42)
Asset-backed securities	2,388	(4)	174	(1)	2,562	(5)
Fixed-income bond funds	347	(38)	0	0	347	(38)
Marketable equity securities	690	(64)	0	0	690	(64)
Total	$ 16,337	$ (234)	$ 2,784	$ (58)	$ 19,121	$ (292)

	As of December 31, 2015					
	Less than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. government notes	$ 13,757	$ (48)	$ 0	$ 0	$ 13,757	$ (48)
U.S. government agencies	864	(3)	0	0	864	(3)
Foreign government bonds	885	(18)	36	(5)	921	(23)
Municipal securities	1,116	(3)	41	(1)	1,157	(4)
Corporate debt securities	9,192	(202)	784	(76)	9,976	(278)
Agency mortgage-backed securities	5,783	(34)	721	(23)	6,504	(57)
Asset-backed securities	2,508	(7)	386	(1)	2,894	(8)

COEX
8.188

Total	$ 34,105	$ (315)	$ 1,968	$ (106)	$ 36,073	$ (421)

During the years ended December 31, 2013 and 2014, we did not recognize any other-than-temporary impairment loss. During the year ended December 31, 2015, we recognized $281 million of other-than-temporary impairment losses related to our marketable equity securities and fixed-income bond funds. Those losses are included in gains (losses) on marketable securities, net as a component of other income (expense), net, in the accompanying Consolidated Statements of Income. See Note 10 for further details on other income (expense), net.

Securities Lending Program

From time to time, we enter into securities lending agreements with financial institutions to enhance investment income. We loan certain securities which are collateralized in the form of cash or securities. Cash collateral is usually invested in reverse repurchase agreements which are collateralized in the form of securities.

We classify loaned securities as cash equivalents or marketable securities and record the cash collateral as an asset with a corresponding liability in the accompanying Consolidated Balance Sheets. We classify reverse repurchase agreements maturing within three months as cash equivalents and those longer than three months as receivable under reverse repurchase agreements in the accompanying Consolidated Balance Sheets. For security collateral received, we do not record an asset or liability except in the event of counterparty default.

Our securities lending transactions were accounted for as secured borrowings with significant investment categories as follows (in millions):

	As of December 31, 2015				
	Remaining Contractual Maturity of the Agreements				
Securities Lending Transactions	Overnight and Continuous	Up to 30 days	30 - 90 Days	Greater Than 90 Days	Total
U.S. government notes	$ 1,322	$ 31	$ 0	$ 306	$ 1,659
U.S. government agencies	504	77	0	0	581
Corporate debt securities	188	0	0	0	188
Total	$ 2,014	$ 108	$ 0	$ 306	$ 2,428
Gross amount of recognized liabilities for securities lending in offsetting disclosure					$ 2,428
Amounts related to agreements not included in securities lending in offsetting disclosure					$ 0

Derivative Financial Instruments

We recognize derivative instruments as either assets or liabilities in the accompanying Consolidated Balance Sheets at fair value. We record changes in the fair value (i.e., gains or losses) of the derivatives in the accompanying Consolidated Statements of Income as other income (expense), net, as part of revenues, or as a component of accumulated other comprehensive income (AOCI) in the accompanying Consolidated Balance Sheets, as discussed below.

We enter into foreign currency contracts with financial institutions to reduce the risk that our cash flows and earnings will be adversely affected by foreign currency exchange rate fluctuations. We use certain interest rate derivative contracts to hedge interest rate exposures on our fixed income securities and debt. Our program is not used for trading or speculative purposes.

We enter into master netting arrangements, which reduce credit risk by permitting net settlement of transactions with the same counterparty. To further reduce credit risk, we enter into collateral security arrangements under which the counterparty is required to provide collateral when the net fair value of certain financial instruments fluctuates from contractually established thresholds. We can take possession of the collateral in the event of counterparty default. As of December 31, 2014 and 2015, we received cash collateral related to the derivative instruments under our collateral security arrangements of $268 million and $192 million.

Cash Flow Hedges

We use options designated as cash flow hedges to hedge certain forecasted revenue transactions denominated in currencies other than the U.S. dollar. The notional principal of these contracts was approximately $13.6 billion and $16.4 billion as of December 31, 2014 and 2015. These foreign exchange contracts have maturities of 36 months or less.

In 2012, we entered into forward-starting interest rate swaps with a total notional amount of $1.0 billion and terms calling for us to receive interest at a variable rate and to pay interest at a fixed rate, that effectively locked in an interest rate on our anticipated debt issuance of $1.0 billion in 2014. We issued $1.0 billion of unsecured senior notes in February 2014 (See details in Note 4). As a result, we terminated the forward-starting interest rate swaps upon the debt issuance. The cash gain associated with the termination is reported within Operating Activities in the Consolidated Statement of Cash Flows for the year ended December 31, 2014, consistent with the impact of the hedged item.

We reflect gain or loss on the effective portion of a cash flow hedge as a component of AOCI and subsequently reclassify cumulative gains and losses to revenues or interest expense when the hedged transactions are recorded. If the hedged transactions become probable of not occurring, the corresponding amounts in AOCI would be immediately reclassified to other income (expense), net. Further, we exclude the change in the time value of the options from our

assessment of hedge effectiveness. We record the premium paid or time value of an option on the date of purchase as an asset. Thereafter, we recognize changes to this time value in other income (expense), net.

As of December 31, 2015, the effective portion of our cash flow hedges before tax effect was $375 million, of which $293 million is expected to be reclassified from AOCI into earnings within the next 12 months.

Fair Value Hedges

We use forward contracts designated as fair value hedges to hedge foreign currency risks for our investments denominated in currencies other than the U.S. dollar. We exclude changes in the time value for forward contracts from the assessment of hedge effectiveness. The notional principal of these contracts was $1.5 billion and $1.8 billion as of December 31, 2014 and 2015.

We use interest rate swaps designated as fair value hedges to hedge interest rate risk for certain fixed rate securities. The notional principal of these contracts was $175 million and $295 million as of December 31, 2014 and 2015.

Gains and losses on these forward contracts and interest rate swaps are recognized in other income (expense), net, along with the offsetting losses and gains of the related hedged items.

Other Derivatives

Other derivatives not designated as hedging instruments consist of forward and option contracts that we use to hedge intercompany transactions and other monetary assets or liabilities denominated in currencies other than the local currency of a subsidiary. We recognize gains and losses on these contracts, as well as the related costs in other income (expense), net, along with the foreign currency gains and losses on monetary assets and liabilities. The notional principal of foreign exchange contracts outstanding was $6.2 billion and $7.5 billion as of December 31, 2014 and 2015.

We also use exchange-traded interest rate futures contracts and “To Be Announced” (TBA) forward purchase commitments of mortgage-backed assets to hedge interest rate risks on certain fixed income securities. The TBA contracts meet the definition of derivative instruments in cases where physical delivery of the assets is not taken at the earliest available delivery date. Our interest rate futures and TBA contracts (together interest rate contracts) are not designated as hedging instruments. We recognize gains and losses on these contracts, as well as the related costs, in other income (expense), net. The gains and losses are generally economically offset by unrealized gains and losses in the underlying available-for-sale securities, which are recorded as a component of AOCI until the securities are sold or other-than-temporarily impaired, at which time the amounts are moved from AOCI into other income (expense), net. The total notional amounts of interest rate contracts outstanding were $150 million and $50 million as of December 31, 2014 and 2015.

The fair values of our outstanding derivative instruments were as follows (in millions):

		As of December 31, 2014		
	Balance Sheet Location	Fair Value of Derivatives Designated as Hedging Instruments	Fair Value of Derivatives Not Designated as Hedging Instruments	Total Fair Value
Derivative Assets:				
Level 2:				
Foreign exchange contracts	Prepaid revenue share, expenses and other assets, current and non-current	$ 851	$ 0	$ 851
Interest rate contracts	Prepaid revenue share, expenses and other assets, current and non-current	1	0	1
Total		$ 852	$ 0	$ 852
Derivative Liabilities:				
Level 2:				
Foreign exchange contracts	Accrued expenses and other current liabilities	$ 0	$ 3	$ 3
Interest rate contracts	Accrued expenses and other liabilities, current and non-current	1	0	1
Total		$ 1	$ 3	$ 4

		As of December 31, 2015		
	Balance Sheet Location	Fair Value of Derivatives Designated as Hedging Instruments	Fair Value of Derivatives Not Designated as Hedging Instruments	Total Fair Value
Derivative Assets:				
Level 2:				
Foreign exchange contracts	Prepaid revenue share, expenses and other assets, current and non-current	$ 626	$ 2	$ 628
Total		$ 626	$ 2	$ 628
Derivative Liabilities:				
Level 2:				
Foreign exchange contracts	Accrued expenses and other current liabilities	$ 1	$ 13	$ 14
Interest rate contracts	Accrued expenses and other liabilities, current and non-current	2	0	2
Total		$ 3	$ 13	$ 16

The effect of derivative instruments in cash flow hedging relationships on income and other comprehensive income (OCI) is summarized below (in millions):

	Gains (Losses) Recognized in OCI on Derivatives Before Tax Effect (Effective Portion)		
	Year Ended December 31,		
Derivatives in Cash Flow Hedging Relationship	2013	2014	2015
Foreign exchange contracts	$ 92	$ 929	$ 964
Interest rate contracts	86	(31)	0
Total	$ 178	$ 898	$ 964

		Gains Reclassified from AOCI into Income (Effective Portion)		
		Year Ended December 31,		
Derivatives in Cash Flow Hedging Relationship	Location	2013	2014	2015
Foreign exchange contracts	Revenues	$ 95	$ 171	$ 1,399
Interest rate contracts	Other income (expense), net	0	4	5
Total		$ 95	$ 175	$ 1,404

		Gains (Losses) Recognized in Income on Derivatives (Amount Excluded from Effectiveness Testing and Ineffective Portion) [1]		
		Year Ended December 31,		
Derivatives in Cash Flow Hedging Relationship	Location	2013	2014	2015
Foreign exchange contracts	Other income (expense), net	$ (280)	$ (279)	$ (297)
Interest rate contracts	Other income (expense), net	0	4	0
Total		$ (280)	$ (275)	$ (297)

[1] Gains (losses) related to the ineffective portion of the hedges were not material in all periods presented.

The effect of derivative instruments in fair value hedging relationships on income is summarized below (in millions):

		Gains (Losses) Recognized in Income on Derivatives[2]		
		Year Ended December 31,		
Derivatives in Fair Value Hedging Relationship	Location	2013	2014	2015
Foreign Exchange Hedges:				
Foreign exchange contracts	Other income (expense), net	$ 16	$ 115	$ 170
Hedged item	Other income (expense), net	(25)	(123)	(176)
Total		$ (9)	$ (8)	$ (6)
Interest Rate Hedges:				
Interest rate contracts	Other income (expense), net	$ 0	$ 0	$ (2)

COEX
8.188

Hedged item	Other income (expense), net	0	0	2
Total		$ 0	$ 0	$ 0

(2) Losses related to the amount excluded from effectiveness testing of the hedges were $9 million, $8 million, and $6 million for the years ended December 31, 2013, 2014, and 2015.

The effect of derivative instruments not designated as hedging instruments on income is summarized below (in millions):

	Gains (Losses) Recognized in Income on Derivatives			
		Year Ended December 31,		
Derivatives Not Designated As Hedging Instruments	Location	2013	2014	2015
Foreign exchange contracts	Other income (expense), net, and net loss from discontinued operations	$ 118	$ 237	$ 198
Interest rate contracts	Other income (expense), net	4	2	1
Total		$ 122	$ 239	$ 199

Offsetting of Derivatives, Securities Lending, and Reverse Repurchase Agreements

We present our derivatives, securities lending and reverse repurchase agreements at gross fair values in the Consolidated Balance Sheets. However, our master netting and other similar arrangements allow net settlements under certain conditions. As of December 31, 2014 and 2015, information related to these offsetting arrangements was as follows (in millions):

Offsetting of Assets

	As of December 31, 2014						
				Gross Amounts Not Offset in the Consolidated Balance Sheets, but Have Legal Rights to Offset			
Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received	Non-Cash Collateral Received	Net Assets Exposed
Derivatives	$ 852	$ 0	$ 852	$ (1) [1]	$ (251)	$ (412)	$ 188
Reverse repurchase agreements	2,637	0	2,637 [2]	0	0	(2,637)	0
Total	$ 3,489	$ 0	$ 3,489	$ (1)	$ (251)	$ (3,049)	$ 188

	As of December 31, 2015						
				Gross Amounts Not Offset in the Consolidated Balance Sheets, but Have Legal Rights to Offset			
Description	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Received	Non-Cash Collateral Received	Net Assets Exposed
Derivatives	$ 628	$ 0	$ 628	$ (13) [1]	$ (189)	$ (214)	$ 212
Reverse repurchase agreements	1,590	0	1,590 [2]	0	0	(1,590)	0
Total	$ 2,218	$ 0	$ 2,218	$ (13)	$ (189)	$ (1,804)	$ 212

(1) The balances as of December 31, 2014 and 2015 were related to derivative liabilities which are allowed to be net settled against derivative assets in accordance with our master netting agreements.

(2) The balances as of December 31, 2014 and 2015 included $1,762 million and $1,140 million recorded in cash and cash equivalents, respectively, and $875 million and $450 million recorded in receivable under reverse repurchase agreements, respectively.

Offsetting of Liabilities

Description	As of December 31, 2014						
				Gross Amounts Not Offset in the Consolidated Balance Sheets, but Have Legal Rights to Offset			
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Pledged	Non-Cash Collateral Pledged	Net Liabilities
Derivatives	$ 4	$ 0	$ 4	$ (1) [3]	$ 0	$ 0	$ 3
Securities lending agreements	2,778	0	2,778	0	0	(2,740)	38
Total	$ 2,782	$ 0	$ 2,782	$ (1)	$ 0	$ (2,740)	$ 41

Description	As of December 31, 2015						
				Gross Amounts Not Offset in the Consolidated Balance Sheets, but Have Legal Rights to Offset			
	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Presented in the Consolidated Balance Sheets	Financial Instruments	Cash Collateral Pledged	Non-Cash Collateral Pledged	Net Liabilities
Derivatives	$ 16	$ 0	$ 16	$ (13) [3]	$ (3)	$ 0	$ 0
Securities lending agreements	2,428	0	2,428	0	0	(2,401)	27
Total	$ 2,444	$ 0	$ 2,444	$ (13)	$ (3)	$ (2,401)	$ 27

[3] The balances as of December 31, 2014 and 2015 were related to derivative assets which are allowed to be net settled against derivative liabilities in accordance with our master netting agreements.

Note 3. Non-Marketable Investments

Our non-marketable investments include non-marketable equity investments and non-marketable debt securities.

Non-Marketable Equity Investments

Our non-marketable equity investments are investments we have made in privately-held companies accounted for under the equity or cost method and are not required to be consolidated under the variable interest or voting models. As of December 31, 2014 and 2015, these investments accounted for under the equity method had a carrying value of approximately $1.3 billion and $1.6 billion, respectively, and those investments accounted for under the cost method had a carrying value of $1.8 billion and $2.6 billion, respectively. For investments accounted for under the cost method, the fair value was approximately $7.5 billion as of December 31, 2015. The fair value of the cost method investments are primarily determined from data leveraging private-market transactions and are classified within Level 3 in the fair value hierarchy. We periodically review our non-marketable equity investments for impairment. No material impairments were recognized for the years ended December 31, 2013, 2014, and 2015. Our share of gains and losses in equity method investments for the year ended December 31, 2015 was a net loss of approximately $227 million and not material for the years ended December 31, 2013 and 2014. We reflect these losses as a component of other income (expense), net, in the accompanying Consolidated Statements of Income.

We determined that certain renewable energy investments included in our non-marketable equity investments are VIEs. However, we do not consolidate these entities in our financial statements because we do not have the power to direct the activities of the VIE that most significantly impact the VIE's economic performance and account for those investments under the equity method. Our involvement with investments in renewable energy relate to our equity investments in entities whose activities involve power generation. We have determined that the governance structures of these entities do not allow us to direct the activities that would significantly impact the entity's economic performance such as setting operating budgets. The carrying value of our renewable energy investments accounted for under the equity method that are VIEs is $302 million as of December 31, 2015 with the maximum exposure of $316 million. The

maximum exposure is based on current investments to date plus future funding commitments. We have determined the single source of our exposure to these VIE's is our capital investment in these entities. We periodically reassess whether we are the primary beneficiary of a VIE. The reassessment process considers whether we have acquired the power to direct the most significant activities of the VIE through changes in governing documents or other circumstances. We also reconsider whether entities previously determined not to be VIEs have become VIEs, based on changes in facts and circumstances including changes in contractual arrangements and capital structure.

Non-Marketable Debt Securities

Our non-marketable debt securities are primarily preferred stock that are redeemable at our option and convertible notes issued by private companies. These debt securities do not have readily determinable market values and are categorized accordingly as Level 3 in the fair value hierarchy. To estimate the fair value of these securities, we use a combination of valuation methodologies, including market and income approaches based on prior transaction prices; estimated timing, probability, and amount of cash flows; and illiquidity considerations. Financial information of private companies may not be available and consequently we will estimate the value based on the best available information at the measurement date. We estimate a range of fair values based on valuation approaches noted above and as of December 31, 2014 and 2015, the fair value recorded on the Consolidated Balance Sheets for individual investments is within the range. No material impairments were recognized for the years ended December 31, 2013, 2014, and 2015.

The following table presents a reconciliation for our assets measured and recorded at fair value on a recurring basis, using significant unobservable inputs (Level 3) (in millions):

	Level 3
Balance as of December 31, 2014	$ 90
Purchases, issuances, and settlements[(1)]	934
Balance as of December 31, 2015	$ 1,024

(1) Purchases of securities included our $900 million investment in SpaceX, a space exploration and space transport company, made during January 2015.

Note 4. Debt

Short-Term Debt

We have a debt financing program of up to $3.0 billion through the issuance of commercial paper. Net proceeds from this program are used for general corporate purposes. As of December 31, 2014 and 2015, we had $2.0 billion of outstanding commercial paper recorded as short-term debt with a weighted-average interest rate of 0.1% and 0.2%, respectively. In conjunction with this program, we have a $3.0 billion revolving credit facility expiring in July 2016. The interest rate for the credit facility is determined based on a formula using certain market rates. As of December 31, 2014 and 2015, we were in compliance with the financial covenant in the credit facility, and no amounts were outstanding under the credit facility as of December 31, 2014 and 2015. The estimated fair value of the short-term debt approximated its carrying value as of December 31, 2014 and 2015.

Long-Term Debt

We issued $1.0 billion of unsecured senior notes (the "2014 Notes") in February 2014 and $3.0 billion of unsecured senior notes in three tranches (collectively, the "2011 Notes") in May 2011. We used the net proceeds from the issuance of the 2011 Notes to repay a portion of our outstanding commercial paper and for general corporate purposes. We used the net proceeds from the issuance of the 2014 Notes for the repayment of the portion of the principal amount of our 2011 Notes which matured on May 19, 2014 and for general corporate purposes. The total outstanding Notes are summarized below (in millions):

	As of December 31, 2014	As of December 31, 2015
Short-Term Portion of Long-Term Debt		
2.125% Notes due on May 19, 2016	$ 0	$ 1,000
Capital Lease Obligation	10	225
Total Short-Term Portion of Long-Term Debt	$ 10	$ 1,225
Long-Term Debt		
2.125% Notes due on May 19, 2016	$ 1,000	$ 0
3.625% Notes due on May 19, 2021	1,000	1,000
3.375% Notes due on February 25, 2024	1,000	1,000
Unamortized discount for the Notes above	(8)	(5)
Subtotal	2,992	1,995
Capital Lease Obligation	236	0
Total Long-Term Debt	$ 3,228	$ 1,995

The effective interest yields of the Notes due in 2016, 2021, and 2024 were 2.241%, 3.734%, and 3.377%, respectively. Interest on the 2011 and 2014 Notes is payable semi-annually. The 2011 and 2014 Notes rank equally with each other and with all of our other senior unsecured and unsubordinated indebtedness from time to time outstanding. We may redeem the 2011 and 2014 Notes at any time in whole or in part at specified redemption prices. We are not subject to any financial covenants under the 2011 Notes or the 2014 Notes. The total estimated fair value of the 2011 and 2014 Notes was approximately $3.1 billion at both December 31, 2014 and 2015. The fair value of the outstanding 2011 and 2014 Notes was determined based on observable market prices in less active markets and is categorized accordingly as Level 2 in the fair value hierarchy.

In August 2013, we entered into a capital lease obligation on certain property expiring in 2028. We intend to exercise the option to purchase the property in 2016, and as such the long term portion of the capital lease obligation was reclassified as short term. The effective rate of the capital lease obligation approximates the market rate. The estimated fair value of the capital lease obligation approximated its carrying value as of December 31, 2014 and 2015.

As of December 31, 2015, aggregate future principal payments for long-term debt (including short-term portion of long-term debt) and capital lease obligation were as follows (in millions):

Years Ending	
2016	$ 1,225
2017	0
2018	0
2019	0
Thereafter	2,000
Total	$ 3,225

In January 2016, the board of directors of Alphabet authorized the company to issue up to $5.0 billion of commercial

paper from time to time and to enter into a $4.0 billion revolving credit facility to replace Google's existing $3.0 billion revolving credit facility.

Note 5. Balance Sheet Components

Property and Equipment, Net

Property and equipment, net, consisted of the following (in millions):

	As of December 31, 2014	As of December 31, 2015
Land and buildings	$ 13,326	$ 16,518
Information technology assets	10,918	13,645
Construction in progress	6,555	7,324
Leasehold improvements	1,868	2,576
Furniture and fixtures	79	83
Property and equipment, gross	32,746	40,146
Less: accumulated depreciation and amortization	(8,863)	(11,130)
Property and equipment, net	$ 23,883	$ 29,016

Property under capital lease with a cost basis of $258 million was included in land and buildings as of December 31, 2015.

Prepaid Revenue Share, Expenses and Other Assets, Non-Current

Note Receivable

In connection with the sale of our Motorola Mobile business on October 29, 2014 (see Note 9 for additional information), we received an interest-free, three-year prepayable promissory note (the "Note Receivable") due October 2017 from Lenovo. The Note Receivable is included in prepaid revenue share, expenses and other assets, non-current, on our Consolidated Balance Sheets. Based on the general market conditions and the credit quality of Lenovo, we discounted the Note Receivable at an effective interest rate of 4.5%. The outstanding balances are shown in the table below (in millions):

	As of December 31, 2014	As of December 31, 2015
Principal of the Note Receivable	$ 1,500	$ 1,448
Less: unamortized discount for the Note Receivable	(175)	(112)
Total	$ 1,325	$ 1,336

As of December 31, 2014 and 2015, we did not recognize a valuation allowance on the Note Receivable.

Accumulated Other Comprehensive Income

The components of AOCI, net of tax, were as follows (in millions):

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Available-for-Sale Investments	Unrealized Gains on Cash Flow Hedges	Total
Balance as of December 31, 2012	$ (73)	$ 604	$ 7	$ 538
Other comprehensive income (loss) before reclassifications	89	(392)	112	(191)
Amounts reclassified from AOCI	0	(162)	(60)	(222)
Other comprehensive income (loss)	89	(554)	52	(413)
Balance as of December 31, 2013	$ 16	$ 50	$ 59	$ 125

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Available-for-Sale Investments	Unrealized Gains on Cash Flow Hedges	Total
Balance as of December 31, 2013	$ 16	$ 50	$ 59	$ 125
Other comprehensive income (loss) before reclassifications	(996)	505	651	160
Amounts reclassified from AOCI	0	(134)	(124)	(258)
Other comprehensive income (loss)	(996)	371	527	(98)
Balance as of December 31, 2014	$ (980)	$ 421	$ 586	$ 27

	Foreign Currency Translation Adjustments	Unrealized Gains (Losses) on Available-for-Sale Investments	Unrealized Gains on Cash Flow Hedges	Total
Balance as of December 31, 2014	$ (980)	$ 421	$ 586	$ 27
Other comprehensive income (loss) before reclassifications	(1,067)	(715)	676	(1,106)
Amounts reclassified from AOCI	0	208	(1,003)	(795)
Other comprehensive income (loss)	(1,067)	(507)	(327)	(1,901)
Balance as of December 31, 2015	$ (2,047)	$ (86)	$ 259	$ (1,874)

The effects on net income of amounts reclassified from AOCI were as follows (in millions):

		Gains (Losses) Reclassified from AOCI to the Consolidated Statement of Income		
		Year Ended December 31,		
AOCI Components	Location	2013	2014	2015
Unrealized gains (losses) on available-for-sale investments				
	Other income (expense), net	$ 158	$ 153	$ (208)
	Net Income (loss) from discontinued operations	43	0	0
	Provision for income taxes	(39)	(19)	0
	Net of tax	$ 162	$ 134	$ (208)
Unrealized gains on cash flow hedges				
Foreign exchange contracts	Revenue	$ 95	$ 171	$ 1,399
Interest rate contracts	Other income (expense), net	0	4	5
	Provision for income taxes	(35)	(51)	(401)
	Net of tax	$ 60	$ 124	$ 1,003
Total amount reclassified, net of tax		$ 222	$ 258	$ 795

COEX
8.188

Note 6. Acquisitions

2015 Acquisitions

bebop Technologies

In December 2015, we completed the acquisition of bebop Technologies Inc. (bebop), a company with a cloud-based development platform focused on enterprise applications. The fair value of total consideration transferred in connection with the close was $272 million, of which $1 million was paid in cash and $271 million was paid in the form of Alphabet Class C capital stock. We issued a total of approximately 514 thousand shares of Alphabet Class C capital

stock in relation to this acquisition, part of which will be accounted for as compensation expense. The fair value of the shares of capital stock issued was determined based on the closing market price of Alphabet's Class C capital stock as of the close date. The Class C capital stock issued by Alphabet in connection with the acquisition was treated as a capital contribution from Alphabet to Google. We expect the acquisition will help us provide a new platform to build and maintain enterprise applications. As part of the acquisition, Diane Greene, the former CEO of bebop and a member of our Board of Directors, has joined Google.

Of the total purchase price of $272 million, $28 million was cash acquired, $59 million was attributed to intangible assets, $206 million was attributed to goodwill, and $21 million was attributed to net liabilities assumed. The goodwill of $206 million is primarily attributable to the synergies expected to arise after the acquisition. Goodwill is not expected to be deductible for tax purposes.

Other Acquisitions

During the year ended December 31, 2015, we completed other acquisitions and purchases of intangible assets for total consideration of approximately $263 million. In aggregate, $4 million was cash acquired, $88 million was attributed to intangible assets, $138 million was attributed to goodwill, and $33 million was attributed to net assets acquired. These acquisitions generally enhance the breadth and depth of our offerings, as well as expanding our expertise in engineering and other functional areas. The amount of goodwill expected to be deductible for tax purposes is approximately $20 million.

Pro forma results of operations for these acquisitions have not been presented because they are not material to the consolidated results of operations, either individually or in aggregate.

For all acquisitions and purchases completed during the year ended December 31, 2015, patents and developed technology have a weighted-average useful life of 4.1 years, customer relationships have a weighted-average useful life of 4.0 years, and trade names and other have a weighted-average useful life of 6.8 years.

2014 Acquisitions

Nest

In February 2014, we completed the acquisition of Nest Labs, Inc. (Nest), a company whose mission is to reinvent devices in the home such as thermostats and smoke alarms. Prior to this transaction, we had an approximately 12% ownership interest in Nest. The acquisition is expected to enhance Google's suite of products and services and allow Nest to continue to innovate upon devices in the home, making them more useful, intuitive, and thoughtful, and to reach more users in more countries.

Of the total $2.6 billion purchase price and the fair value of our previously held equity interest of $152 million, $51 million was cash acquired, $430 million was attributed to intangible assets, $2.3 billion was attributed to goodwill, and $84 million was attributed to net liabilities assumed. The goodwill of $2.3 billion is primarily attributable to synergies expected to arise after the acquisition. Goodwill is not expected to be deductible for tax purposes.

This transaction is considered a “step acquisition” under GAAP whereby our ownership interest in Nest held before the acquisition was remeasured to fair value at the date of the acquisition. Such fair value was estimated by using discounted cash flow valuation methodologies. Inputs used in the methodologies primarily included projected future cash flows, discounted at a rate commensurate with the risk involved. The gain of $103 million as a result of remeasurement is included in other income (expense), net, on our Consolidated Statements of Income for the year ended December 31, 2014.

Dropcam

In July 2014, Nest completed the acquisition of Dropcam, Inc. (Dropcam), a company that enables consumers and businesses to monitor their homes and offices via video, for approximately $517 million in cash. With Dropcam on board, Nest expects to continue to reinvent products that will help shape the future of the connected home. Of the total purchase price of $517 million, $11 million was cash acquired, $55 million was attributed to intangible assets, $452 million was attributed to goodwill, and $1 million was attributed to net liabilities assumed. The goodwill of $452 million is primarily attributable to synergies expected to arise after the acquisition. Goodwill is not expected to be deductible for tax purposes.

Skybox

In August 2014, we completed the acquisition of Skybox Imaging, Inc. (Skybox), a satellite imaging company, for

approximately $478 million in cash. We expect the acquisition to keep Google Maps accurate with up-to-date imagery and, over time, improve internet access and disaster relief. Of the total purchase price of $478 million, $6 million was cash acquired, $69 million was attributed to intangible assets, $388 million was attributed to goodwill, and $15 million

was attributed to net assets acquired. The goodwill of $388 million is primarily attributable to the synergies expected to arise after the acquisition. Goodwill is not expected to be deductible for tax purposes.

Other Acquisitions

During the year ended December 31, 2014, we completed other acquisitions and purchases of intangible assets for total consideration of approximately $1,466 million, which includes the fair value of our previously held equity interest of $33 million. In aggregate, $65 million was cash acquired, $405 million was attributed to intangible assets, $1,045 million was attributed to goodwill, and $49 million was attributed to net liabilities assumed. These acquisitions generally enhance the breadth and depth of our offerings, as well as expanding our expertise in engineering and other functional areas. The amount of goodwill expected to be deductible for tax purposes is approximately $55 million.

Pro forma results of operations for these acquisitions have not been presented because they are not material to the consolidated results of operations, either individually or in aggregate.

For all acquisitions and purchases completed during the year ended December 31, 2014, patents and developed technology have a weighted-average useful life of 5.1 years, customer relationships have a weighted-average useful life of 4.5 years, and trade names and other have a weighted-average useful life of 6.9 years.

Note 7. Collaboration Agreement

On September 18, 2013, we announced the formation of Calico, a life science company with a mission to harness advanced technologies to increase our understanding of the biology that controls lifespan. Calico's results of operations and statement of financial position are included in our consolidated financial statements. As of December 31, 2015, Google has contributed $240 million to Calico in exchange for Calico convertible preferred units. As of December 31, 2015, Google has also committed to fund an additional $490 million on an as-needed basis.

In September 2014, AbbVie Inc. (AbbVie) and Calico announced a research and development collaboration intended to help both companies discover, develop, and bring to market new therapies for patients with age-related diseases, including neurodegeneration and cancer. As of December 31, 2015, AbbVie has contributed $750 million to fund the collaboration pursuant to the agreement, which reflects its total commitment. As of December 31, 2015, Calico has contributed $250 million and committed up to an additional $500 million.

Calico will use its scientific expertise to establish a world-class research and development facility, with a focus on drug discovery and early drug development; and AbbVie will provide scientific and clinical development support and its commercial expertise to bring new discoveries to market. Both companies will share costs and profits equally. AbbVie's contribution has been recorded as a liability on Calico's financial statements, which is reduced and reflected as a reduction to research and development expense as eligible research and development costs are incurred by Calico over the next few years.

Note 8. Goodwill and Other Intangible Assets

Goodwill

In conjunction with the Alphabet reorganization we are implementing a new operating structure. Consequently, beginning in the fourth quarter of 2015, we have multiple operating segments and reporting units, representing the individual businesses run separately under the Alphabet structure. Refer to Note 16 for further information. In conjunction with the changes to reporting units, we allocated goodwill to each reporting unit based on their relative fair values. The changes in the carrying amount of goodwill allocated to our disclosed segments for the years ended December 31, 2014 and 2015 were as follows (in millions):

	Google	Other Bets	Total Consolidated
Balance as of December 31, 2013	$ 11,492	$ —	$ 11,492
Acquisitions	4,208	—	4,208
Dispositions	(43)	—	(43)
Foreign currency translation and other adjustments	(58)	—	(58)
Balance as of December 31, 2014	$ 15,599	$ —	$ 15,599
Acquisitions	139	—	139
Foreign currency translation and other adjustments	(71)	—	(71)
Allocation in the fourth quarter of 2015	(416)	416	—
Acquisitions	201	4	205
Foreign currency translation and other adjustments	4	(7)	(3)
Balance as of December 31, 2015	$ 15,456	$ 413	$ 15,869

Other Intangible Assets

Information regarding our purchased intangible assets is as follows (in millions):

	As of December 31, 2014		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patents and developed technology	$ 6,547	$ 2,513	$ 4,034
Customer relationships	1,410	1,168	242
Trade names and other	696	365	331
Total	$ 8,653	$ 4,046	$ 4,607

	As of December 31, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Patents and developed technology	$ 6,592	$ 3,213	$ 3,379
Customer relationships	1,343	1,201	142
Trade names and other	795	469	326
Total	$ 8,730	$ 4,883	$ 3,847

Patents and developed technology, customer relationships, and trade names and other have weighted-average useful lives from the date of purchase of 7.8 years, 6.0 years, and 5.4 years, respectively. Amortization expense relating to our purchased intangible assets was $1,011 million, $1,079 million, and $892 million for the years ended December 31, 2013, 2014, and 2015.

During the year ended December 31, 2014, we recorded an impairment charge in other cost of revenues of $378 million related to a patent licensing royalty asset acquired in connection with the Motorola acquisition, which we retained subsequent to the sale of Motorola Mobile. The asset was determined to be impaired due to prolonged decreased royalty payments and unpaid interest owed and was written down to its fair value. Fair value was determined based on a discounted cash flow method and reflects estimated future cash flows associated with the patent licensing royalty asset at the measurement date and falls within level 3 in fair value hierarchy. Impairments of intangible assets were not material for the year ended December 31, 2015.

As of December 31, 2015, expected amortization expense for our purchased intangible assets for each of the next five years and thereafter was as follows (in millions):

2016	$ 806
2017	724
2018	637
2019	528
2020	434
Thereafter	718
	$ 3,847

Note 9. Discontinued Operations

Motorola Mobile

On October 29, 2014, we closed the sale of the Motorola Mobile business to Lenovo for a total purchase price of approximately $2.9 billion, including $1.4 billion paid at close, comprised of $660 million in cash and $750 million in Lenovo ordinary shares (519.1 million shares). The remaining $1.5 billion was paid in the form of an interest-free, three-year prepayable promissory note.

We maintain ownership of the vast majority of the Motorola Mobile patent portfolio, including pre-closing patent applications and invention disclosures, which we licensed to Motorola Mobile for its continued operations. Additionally, in connection with the sale, we agreed to indemnify Lenovo for certain potential liabilities of the Motorola Mobile business, for which we recorded an indemnification liability of $130 million.

The sale resulted in a gain of $740 million, net of tax, which was presented as part of net income from discontinued operations in the Consolidated Statements of Income for the year ended December 31, 2014. Incremental to this net gain, we recognized additional income of $254 million, net of tax, in connection with certain IP licensing arrangements between the parties, included as part of net income from discontinued operations on the Consolidated Statements of Income for the year ended December 31, 2014.

The financial results of Motorola Mobile through the date of divestiture are presented as net income (loss) from discontinued operations on the Consolidated Statements of Income. The following table presents financial results of the Motorola Mobile business included in net income (loss) from discontinued operations for the years ended December 31, 2013 and 2014 (in millions):

	Year Ended December 31,	
	2013	2014[1]
Revenues	$ 4,306	$ 5,486
Loss from discontinued operations before income taxes	(1,403)	(177)
Benefits from/(Provision for) income taxes	270	(47)
Gain on disposal	0	740
Net (loss) income from discontinued operations	$ (1,133)	$ 516

(1) The operating results of Motorola Mobile were included in our Consolidated Statements of Income from January 1, 2014 through October 29, 2014, the date of divestiture.

The following table presents the aggregate carrying amounts of the major classes of assets and liabilities divested (in millions):

Assets:		
Cash and cash equivalents	$	160
Accounts receivable		1,103
Inventories		217
Prepaid expenses and other current assets		357
Prepaid expenses and other assets, non-current		290
Property and equipment, net		542
Intangible assets, net		985
Goodwill		43
Total assets	$	3,697
Liabilities:		
Accounts payable	$	1,238
Accrued compensation and benefits		163
Accrued expenses and other current liabilities		10
Deferred revenue, current		165
Other long-term liabilities		250
Total liabilities	$	1,826

Motorola Home

On April 17, 2013, we sold the Motorola Home business to Arris for consideration of approximately $2,412 million in cash, including cash of $2,238 million received at the date of close and certain post-close adjustments of $174 million received in the third quarter of 2013, and approximately $175 million in Arris' common stock (10.6 million shares). Subsequent to the transaction, we own approximately 7.8% of the outstanding shares of Arris. Additionally, in connection with the disposition, we agreed to indemnify Arris for potential liability from certain intellectual property infringement litigation, for which we recorded an indemnification liability of $175 million, the majority of which was settled subsequent to the disposition.

The disposition resulted in a net gain of $757 million, which was presented as part of net income from discontinued operations in the Consolidated Statements of Income for the year ended December 31, 2013.

The financial results of Motorola Home through the date of divestiture are presented as net income (loss) from discontinued operations on the Consolidated Statement of Income. The following table presents financial results of the Motorola Home business included in net income (loss) from discontinued operations for the year ended December 31, 2013 (in millions):

	Year Ended December 31, 2013 [1]	
Revenues	$	804
Loss from discontinued operations before income taxes		(67)
Benefits from income taxes		16
Gain on disposal		757
Net income from discontinued operations	$	706

(1)The operating results of Motorola Home were included in our Consolidated Statements of Income from January 1, 2013 through April 17, 2013, the date of divestiture.

The following table presents the aggregate carrying amounts of the major classes of assets and liabilities divested (in millions):

Assets:		
Accounts receivable	$	424
Inventories		228
Deferred income taxes, net		144
Prepaid and other current assets		152
Property and equipment, net		282
Intangible assets, net		701
Other assets, non-current		182
Total assets	$	2,113
Liabilities:		
Accounts payable	$	169
Accrued expenses and other liabilities		289
Total liabilities	$	458

Note 10. Other Income (Expense), Net

The components of other income (expense), net, were as follows (in millions):

	Year Ended December 31,		
	2013	2014	2015
Interest income	$ 766	$ 746	$ 999
Interest expense	(81)	(101)	(104)
Gain (loss) on marketable securities, net	158	153	(208)
Foreign currency exchange losses, net [1]	(379)	(402)	(422)
Gain (loss) on non-marketable investments, net	8	237	(126)
Loss on divestiture of businesses [2]	(57)	0	0
Other	81	130	152
Other income (expense), net	$ 496	$ 763	$ 291

(1) Our foreign currency exchange losses,net are related to the option premium costs and forward points for our foreign currency hedging contracts, our foreign exchange transaction gains and losses from the conversion of the transaction currency to the functional currency, offset by the foreign currency hedging contract losses and gains. The net foreign currency transaction losses were $121 million, $107 million, and $123 million in 2013, 2014, and 2015, respectively.

(2) Gain on divestiture of Motorola Home business was included in net income (loss) from discontinued operations for the year ended December 31, 2013. Gain on divestiture of Motorola Mobile business was included in net income (loss) from discontinued operations for the year ended December 31, 2014.

Note 11. Commitments and Contingencies

Operating Leases

We have entered into various non-cancelable operating lease agreements for certain of our offices, facilities, land, and data centers throughout the world with original lease periods expiring primarily between 2016 and 2063. We are committed to pay a portion of the actual operating expenses under certain of these lease agreements. These operating expenses are not included in the table below. Certain of these arrangements have free or escalating rent payment provisions. We recognize rent expense under such arrangements on a straight-line basis.

As of December 31, 2015, future minimum payments under non-cancelable operating leases, net of sublease income amounts, were as follows over each of the next five years and thereafter (in millions):

	Operating Leases	Sub-lease Income	Net Operating Leases
2016	672	26	646
2017	794	13	781
2018	796	4	792
2019	769	3	766
2020	719	3	716
Thereafter	3,706	1	3,705
Total minimum payments	$ 7,456	$ 50	$ 7,406

Certain leases have adjustments for market provisions. Amounts in the above table represent our best estimates of future payments to be made under these leases.

We entered into certain non-cancelable lease agreements with original lease periods expiring between 2021 and 2032 where we are the deemed owner for accounting purposes of new construction projects. Future minimum lease payments under such leases total approximately $678 million, of which $422 million is included on the Consolidated Balance Sheet as of December 31, 2015. These amounts are presented as an asset and corresponding non-current liability, which represents our estimate of construction costs incurred to date. They have been excluded from the table above.

Rent expense under operating leases, including co-location arrangements, was $465 million, $570 million, and $734 million in 2013, 2014, and 2015.

Purchase Obligations

As of December 31, 2015, we had $1.7 billion of other non-cancelable contractual obligations, primarily related to data center operations and facility build-outs, video and other content licensing revenue sharing arrangements, as well as certain inventory purchase commitments.

Letters of Credit

As of December 31, 2015, we had unused letters of credit for $752 million.

Indemnifications

In the normal course of business, to facilitate transactions in our services and products, we indemnify certain parties, including advertisers, Google Network Members, and lessors with respect to certain matters. We have agreed to hold certain parties harmless against losses arising from a breach of representations or covenants, or out of intellectual property infringement or other claims made against certain parties. Several of these agreements limit the time within which an indemnification claim can be made and the amount of the claim. In addition, we have entered into indemnification agreements with our officers and directors, and our bylaws contain similar indemnification obligations to our agents.

It is not possible to make a reasonable estimate of the maximum potential amount under these indemnification agreements due to the unique facts and circumstances involved in each particular agreement. Additionally, we have a limited history of prior indemnification claims and the payments we have made under such agreements have not had a material adverse effect on our results of operations, cash flows, or financial position. However, to the extent that valid indemnification claims arise in the future, future payments by us could be significant and could have a material adverse effect on our results of operations or cash flows in a particular period.

As of December 31, 2015, we did not have any material indemnification claims that were probable or reasonably possible. As part of the sale of Motorola Home and Motorola Mobile businesses, we issued indemnifications for certain potential liabilities. Please see Note 9 for additional information.

Legal Matters

Antitrust Investigations

On November 30, 2010, the European Commission's (EC) Directorate General for Competition opened an investigation into various antitrust-related complaints against us. On April 15, 2015, the EC issued a Statement of

Objections (SO) regarding the display and ranking of shopping search results. The EC also opened a formal investigation into Android. We responded to the SO on August 27, 2015 and will continue to cooperate with the EC.

The Comision Nacional de Defensa de la Competencia in Argentina, the Competition Commission of India (CCI), Brazil's Council for Economic Defense (CADE), the Canadian Competition Bureau (CCB), and the Federal Antimonopoly Service (FAS) of the Russian Federation have also opened investigations into certain of our business practices. In August 2015, we received the CCI Director General's report with interim findings of competition law infringements regarding search and ads. In September 2015, FAS found that there has been a competition law infringement in Android mobile distribution. We will respond to the CCI's report and have filed an appeal of the FAS decision. In July 2015, the Taiwan Fair Trade Commission informed us that it was closing its antitrust investigations of our business practices.

The state attorney general from Mississippi issued subpoenas in 2011 and 2012 in an antitrust investigation of our business practices. We have responded to those subpoenas, and we remain willing to cooperate with them if they have any further information requests.

Patent and Intellectual Property Claims

We have had patent, copyright, and trademark infringement lawsuits filed against us claiming that certain of our products, services, and technologies infringe the intellectual property rights of others. Adverse results in these lawsuits may include awards of substantial monetary damages, costly royalty or licensing agreements, or orders preventing us from offering certain features, functionalities, products, or services, and may also cause us to change our business practices, and require development of non-infringing products or technologies, which could result in a loss of revenues for us and otherwise harm our business. In addition, the U.S. International Trade Commission (ITC) has increasingly become an important forum to litigate intellectual property disputes because an ultimate loss for a company or its suppliers in an ITC action could result in a prohibition on importing infringing products into the U.S. Since the U.S. is an important market, a prohibition on importation could have an adverse effect on us, including preventing us from importing many important products into the U.S. or necessitating workarounds that may limit certain features of our products.

Furthermore, many of our agreements with our customers and partners require us to indemnify them for certain intellectual property infringement claims against them, which would increase our costs as a result of defending such claims, and may require that we pay significant damages if there were an adverse ruling in any such claims. Our customers and partners may discontinue the use of our products, services, and technologies, as a result of injunctions or otherwise, which could result in loss of revenues and adversely impact our business.

Other

We are also regularly subject to claims, suits, government investigations, and other proceedings involving competition (such as the pending EC investigations described above), intellectual property, privacy, tax, labor and employment, commercial disputes, content generated by our users, goods and services offered by advertisers or publishers using our platforms, personal injury, consumer protection, and other matters. Such claims, suits, government investigations, and other proceedings could result in fines, civil or criminal penalties, or other adverse consequences.

Certain of our outstanding legal matters include speculative claims for substantial or indeterminate amounts of damages. We record a liability when we believe that it is probable that a loss has been incurred and the amount can be reasonably estimated. If we determine that a loss is reasonably possible and the loss or range of loss can be estimated, we disclose the possible loss. We evaluate, on a monthly basis, developments in our legal matters that could affect the amount of liability that has been previously accrued, and the matters and related reasonably possible losses disclosed, and make adjustments as appropriate. Significant judgment is required to determine both likelihood of there being and the estimated amount of a loss related to such matters.

With respect to our outstanding legal matters, based on our current knowledge, we believe that the amount or range of reasonably possible loss will not, either individually or in the aggregate, have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows. However, the outcome of such legal matters is inherently unpredictable and subject to significant uncertainties.

We expense legal fees in the period in which they are incurred.

Taxes

We are under audit by the Internal Revenue Service (IRS) and various other domestic and foreign tax authorities

with regards to income tax and indirect tax matters. We have reserved for potential adjustments to our provision for income taxes and accrual of indirect taxes that may result from examinations by, or any negotiated agreements with, these tax authorities, and we believe that the final outcome of these examinations or agreements will not have a

material effect on our results of operations. If events occur which indicate payment of these amounts is unnecessary, the reversal of the liabilities would result in the recognition of benefits in the period we determine the liabilities are no longer necessary. If our estimates of the federal, state, and foreign income tax liabilities and indirect tax liabilities are less than the ultimate assessment, it would result in a further charge to expense.

Please see Note 15 for additional information regarding contingencies related to our income taxes.

Note 12. Net Income Per Share

Alphabet

We compute net income per share of Class A and Class B common stock and Class C capital stock using the two-class method. Basic net income per share is computed using the weighted-average number of common shares outstanding during the period. Diluted net income per share is computed using the weighted-average number of common shares and the effect of potentially dilutive securities outstanding during the period. Potentially dilutive securities consist of stock options, restricted stock units, and other contingently issuable shares. The dilutive effect of outstanding stock options, restricted stock units, and other contingently issuable shares is reflected in diluted earnings per share by application of the treasury stock method. The computation of the diluted net income per share of Class A common stock assumes the conversion of Class B common stock, while the diluted net income per share of Class B common stock does not assume the conversion of those shares.

The rights, including the liquidation and dividend rights, of the holders of our Class A and Class B common stock and Class C capital stock are identical, except with respect to voting. Further, there are a number of safeguards built into our certificate of incorporation, as well as Delaware law, which preclude our board of directors from declaring or paying unequal per share dividends on our Class A and Class B common stock and Class C capital stock. Specifically, Delaware law provides that amendments to our certificate of incorporation which would have the effect of adversely altering the rights, powers, or preferences of a given class of stock must be approved by the class of stock adversely affected by the proposed amendment. In addition, our certificate of incorporation provides that before any such amendment may be put to a stockholder vote, it must be approved by the unanimous consent of our board of directors. As a result, the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B common shares and Class C capital stock as if the earnings for the year had been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. The net income per share amounts are the same for Class A and Class B common stock and Class C capital stock because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation. Further, as we assume the conversion of Class B common stock in the computation of the diluted net income per share of Class A common stock, the undistributed earnings are equal to net income for that computation.

Stock Split Effected In Form of Stock Dividend

In January 2014, our board of directors approved the distribution of shares of Class C capital stock as a dividend to our holders of Class A and Class B common stock (the Stock Split). The Stock Split had a record date of March 27, 2014 and a payment date of April 2, 2014.

In the second quarter of 2015, in accordance with a settlement of litigation involving the authorization to distribute Class C capital stock, at the close of trading on April 2, 2015, the last trading day of the 365 day period following the first date the Class C shares traded on NASDAQ (Lookback Period), we determined that a payment (the Adjustment Payment) in the amount of $522 million was due to Class C capital stockholders. The amount of the Adjustment Payment was based on the percentage difference that developed between the volume-weighted average price of Class A and Class C shares during the Lookback Period, as supplied by NASDAQ Data-on-Demand, and was payable to holders of Class C capital stock as of the end of the Lookback Period in cash, Class A common stock, Class C capital stock, or a combination thereof, at the discretion of our board of directors. On April 22, 2015, our board of directors approved the Adjustment Payment in shares of Class C capital stock, and cash in lieu of any fractional shares of Class C capital stock. In May 2015, the Adjustment Payment was made, resulting in the issuance of approximately 853 thousand shares of Class C capital stock, with $475 million reflected in additional-paid in capital and $47 million of cash in lieu of fractional shares of Class C capital stock.

In the year ended December 31, 2015, the Adjustment Payment was allocated to the numerator for calculating net income per share of Class C capital stock from net income available to all stockholders and the remaining undistributed earnings were allocated on a pro rata basis to Class A and Class B common stock and Class C capital stock based on the number of shares used in the per share computation for each class of stock. The weighted-average

share impact of the Adjustment Payment is included in the denominator of both basic and diluted net income per share computations for the year ended December 31, 2015.

In the years ended December 31, 2013 and 2014, the net income per share amounts are the same for Class A and Class B common stock and Class C capital stock because the holders of each class are entitled to equal per share dividends or distributions in liquidation in accordance with our Amended and Restated Certificate of Incorporation of Alphabet Inc.

The par value per share of our shares of Class A and Class B common stock remained unchanged at $0.001 per share after the Stock Split. On the effective date of the Stock Split, a transfer between retained earnings and common stock occurred in an amount equal to the $0.001 par value of the Class C capital stock that was issued.

Share and per share amounts for the prior periods presented below have been retroactively adjusted to reflect the Stock Split.

Computation of Net Income Per Share

The following table sets forth the computation of basic and diluted net income per share of Class A and Class B common stock and Class C capital stock (in millions, except share amounts which are reflected in thousands and per share amounts):

	Year Ended December 31, 2013		
	Class A	Class B	Class C
Basic net income (loss) per share:			
Numerator			
Allocation of undistributed earnings - continuing operations	$ 5,407	$ 1,173	$ 6,580
Allocation of undistributed earnings - discontinued operations	(175)	(38)	(214)
Total	$ 5,232	$ 1,135	$ 6,366
Denominator			
Number of shares used in per share computation	273,518	59,328	332,846
Basic net income (loss) per share:			
Continuing operations	$ 19.77	$ 19.77	$ 19.77
Discontinued operations	(0.64)	(0.64)	(0.64)
Basic net income per share	$ 19.13	$ 19.13	$ 19.13
Diluted net income (loss) per share:			
Numerator			
Allocation of undistributed earnings for basic computation - continuing operations	$ 5,407	$ 1,173	$ 6,580
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	1,173	0	0
Reallocation of undistributed earnings	0	(21)	0
Allocation of undistributed earnings - continuing operations	$ 6,580	$ 1,152	$ 6,580
Allocation of undistributed earnings for basic computation - discontinued operations	(175)	(38)	(214)
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	(38)	0	0
Reallocation of undistributed earnings	(1)	1	1
Allocation of undistributed earnings - discontinued operations	$ (214)	$ (37)	$ (213)
Denominator			
Number of shares used in basic computation	273,518	59,328	332,846
Weighted-average effect of dilutive securities			
Add:			
Conversion of Class B to Class A common shares outstanding	59,328	0	0
Employee stock options	2,748	4	2,748

COEX
8.188

Restricted stock units and other contingently issuable shares	3,215	0	3,215
Number of shares used in per share computation	338,809	59,332	338,809
Diluted net income (loss) per share:			
Continuing operations	$ 19.42	$ 19.42	$ 19.42
Discontinued operations	(0.63)	(0.63)	(0.63)
Diluted net income per share	$ 18.79	$ 18.79	$ 18.79

	Year Ended December 31, 2014		
	Class A	Class B	Class C
Basic net income per share:			
Numerator			
Allocation of undistributed earnings - continuing operations	$ 5,700	$ 1,107	$ 6,813
Allocation of undistributed earnings - discontinued operations	216	42	258
Total	$ 5,916	$ 1,149	$ 7,071
Denominator			
Number of shares used in per share computation	282,877	54,928	338,130
Basic net income per share:			
Continuing operations	$ 20.15	$ 20.15	$ 20.15
Discontinued operations	0.76	0.76	0.76
Basic net income per share	$ 20.91	$ 20.91	$ 20.91
Diluted net income per share:			
Numerator			
Allocation of undistributed earnings for basic computation - continuing operations	$ 5,700	$ 1,107	$ 6,813
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	1,107	0	0
Reallocation of undistributed earnings	(20)	(18)	20
Allocation of undistributed earnings - continuing operations	$ 6,787	$ 1,089	$ 6,833
Allocation of undistributed earnings for basic computation - discontinued operations	216	42	258
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	42	0	0
Reallocation of undistributed earnings	(1)	(1)	1
Allocation of undistributed earnings - discontinued operations	$ 257	$ 41	$ 259
Denominator			
Number of shares used in basic computation	282,877	54,928	338,130
Weighted-average effect of dilutive securities			
Add:			
Conversion of Class B to Class A common shares outstanding	54,928	0	0
Employee stock options	2,057	0	2,038
Restricted stock units and other contingently issuable shares	2,515	0	4,525
Number of shares used in per share computation	342,377	54,928	344,693
Diluted net income per share:			
Continuing operations	$ 19.82	$ 19.82	$ 19.82
Discontinued operations	0.75	0.75	0.75
Diluted net income per share	$ 20.57	$ 20.57	$ 20.57

	Year Ended December 31, 2015		
	Class A	Class B	Class C
Basic net income per share:			
Numerator			
Adjustment Payment to Class C capital stockholders - continuing operations	$ 0	$ 0	$ 522
Allocation of undistributed earnings - continuing operations	6,695	1,196	7,935
Allocation of undistributed earnings - discontinued operations	0	0	0
Total	$ 6,695	$ 1,196	$ 8,457
Denominator			
Number of shares used in per share computation	289,640	51,745	343,241
Basic net income per share:			
Continuing operations	$ 23.11	$ 23.11	$ 24.63
Discontinued operations	0.00	0.00	0.00
Basic net income per share	$ 23.11	$ 23.11	$ 24.63
Diluted net income per share:			
Numerator			
Adjustment Payment to Class C capital stockholders - continuing operations	$ 0	$ 0	$ 522
Allocation of undistributed earnings for basic computation - continuing operations	$ 6,695	$ 1,196	$ 7,935
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	1,196	0	0
Reallocation of undistributed earnings	(39)	(14)	39
Allocation of undistributed earnings - continuing operations	7,852	1,182	7,974
Allocation of undistributed earnings for basic computation - discontinued operations	0	0	0
Reallocation of undistributed earnings as a result of conversion of Class B to Class A shares	0	0	0
Reallocation of undistributed earnings	0	0	0
Allocation of undistributed earnings - discontinued operations	$ 0	$ 0	$ 0
Denominator			
Number of shares used in basic computation	289,640	51,745	343,241
Weighted-average effect of dilutive securities			
Add:			
Conversion of Class B to Class A common shares outstanding	51,745	0	0
Employee stock options	1,475	0	1,428
Restricted stock units and other contingently issuable shares	920	0	4,481
Number of shares used in per share computation	343,780	51,745	349,150
Diluted net income per share:			
Continuing operations	$ 22.84	$ 22.84	$ 24.34
Discontinued operations	0.00	0.00	0.00
Diluted net income per share	$ 22.84	$ 22.84	$ 24.34

Google

Net income per share for Google is not required as its shares are not publicly traded.

Note 13. Stockholders' Equity

Alphabet Reorganization

On October 2, 2015, Google implemented a legal reorganization, which resulted in Alphabet owning all of the outstanding stock of Google. Consequently, Google became a direct, wholly owned subsidiary of Alphabet. Each share of each class of Google stock issued and outstanding immediately prior to the legal reorganization automatically converted into an equivalent corresponding share of Alphabet stock, and Google's stockholders immediately prior to the consummation of the legal reorganization became stockholders of Alphabet.

As a result of the reorganization, on October 2, 2015, the Fourth Amended and Restated Certificate of Incorporation of Google was amended to decrease the authorized number of shares of Class A common stock, Class B common

stock and Class C capital stock, par value $0.001 per share, from 9 billion shares, 3 billion shares and 3 billion shares, respectively, to 500 shares of each class of stock, respectively. Additionally, the authorized number of shares of preferred stock, par value $0.001 per share, was decreased from 100 million shares to 500 shares. As of December 31, 2015, Google had 100 shares of Class A common stock, 100 shares of Class B common stock, and 100 shares of Class C capital stock outstanding, of which Alphabet was the sole owner.

Alphabet Convertible Preferred Stock

Our board of directors has authorized 100 million shares of convertible preferred stock, $0.001 par value, issuable in series. As of December 31, 2014 and 2015, there were no shares issued or outstanding.

Alphabet Class A and Class B Common Stock and Class C Capital Stock

Our board of directors has authorized three classes of stock, Class A and Class B common stock, and Class C capital stock. The rights of the holders of each class of our common and capital stock are identical, except with respect to voting. Each share of Class A common stock is entitled to one vote per share. Each share of Class B common stock is entitled to 10 votes per share. Class C capital stock has no voting rights, except as required by applicable law. Shares of Class B common stock may be converted at any time at the option of the stockholder and automatically convert upon sale or transfer to Class A common stock.

Stock Plans

As a result of the Alphabet reorganization, on October 2, 2015, Google transferred to Alphabet, and Alphabet assumed, sponsorship of all of Google's stock plans along with all of Google's rights and obligations under each plan.

During the year ended December 31, 2014, shares reserved for future grants under the 2004 Stock Plan expired and we began granting awards from the 2012 Stock Plan (“Stock Plan”). Under our Stock Plan, RSUs or stock options may be granted. An RSU award is an agreement to issue shares of our publicly traded stock at the time the award vests. Incentive and non-qualified stock options, or rights to purchase common stock, are generally granted for a term of 10 years. Options and RSUs granted to participants under the Stock Plan generally vest over four years contingent upon employment or service with us on the vesting date.

As of December 31, 2015, there were 23,336,944 shares of stock reserved for future issuance under our Stock Plan.

Stock-Based Compensation

The following table presents our aggregate stock-based compensation expense by type of costs and expenses per the Consolidated Statements of Income (in millions):

	Year Ended December 31,		
	2013	2014	2015
Cost of revenues	$ 469	$ 535	$ 806
Research and development	1,641	2,200	2,687
Sales and marketing	552	715	899
General and administrative	465	725	861
Discontinued operations	216	104	0
Total stock-based compensation expense	$ 3,343	$ 4,279	$ 5,253

For the years ended December 31, 2013, 2014, and 2015, we recognized tax benefits on total stock-based compensation expense from continuing operations of $685 million, $867 million, and $1,133 million, respectively, and from discontinued operations of $59 million, $30 million and $0 million, respectively. In addition, as a result of the Tax Court ruling in Altera Corp. v. Commissioner, we have recorded a tax benefit of $522 million related to 2015 stock-based compensation expense that will be subject to reimbursement of cost share payments if the tax court's opinion is sustained. Refer to Note 15 for more detail regarding the Altera case.

Of the total stock-based compensation expense from continuing operations recognized in the years ended December 31, 2013, 2014, and 2015, $0 million, $0 million, and $50 million, respectively, was associated with awards ultimately settled in cash. Awards which will be ultimately settled in cash are classified as liabilities in our Consolidated

Balance Sheets.

Stock-based compensation associated with Alphabet equity awards granted to Google employees in the fourth quarter ended December 31, 2015, was treated as a capital contribution from Alphabet to Google. Stock-based

compensation associated with equity awards for the years ended December 31, 2013, 2014 and 2015 are presented as stock-based compensation expense in Alphabet's and Google's Consolidated Statements of Stockholders' Equity.

Alphabet Stock-Based Award Activities

The following table summarizes the activities for our options for the year ended December 31, 2015:

	Options Outstanding			
	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)[1]
Balance as of December 31, 2014	7,240,419	$ 215.56		
Granted	0	N/A		
Exercised	(2,072,550)	$ 189.64		
Forfeited/canceled	(268,886)	$ 310.47		
Balance as of December 31, 2015	4,898,983	$ 221.31	3.7	$ 2,682
Exercisable as of December 31, 2015	4,462,847	$ 212.02	3.4	$ 2,484
Exercisable as of December 31, 2015 and expected to vest thereafter [2]	4,846,996	$ 220.29	3.6	$ 2,658

(1) The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying awards and the closing stock prices of $778.01 and $758.88 of our Class A common stock and Class C capital stock, respectively, on December 31, 2015.

(2) Options expected to vest reflect an estimated forfeiture rate.

The total grant date fair value of stock options vested during 2013, 2014 and 2015 was $223 million, $94 million, and $33 million. The aggregate intrinsic value of all options and warrants exercised during 2013, 2014 and 2015 was $1,793 million, $589 million, and $867 million. These amounts do not include the aggregate sales price of options sold under our Transferable Stock Options (TSO) program, which was discontinued as of November 29, 2013.

As of December 31, 2015, there was $12 million of unrecognized compensation cost related to outstanding employee stock options. This amount is expected to be recognized over a weighted-average period of 0.6 years. To the extent the actual forfeiture rate is different from what we have estimated, stock-based compensation expense related to these awards will be different from our expectations.

The following table summarizes the activities for our unvested RSUs for the year ended December 31, 2015:

	Unvested Restricted Stock Units	
	Number of Shares	Weighted-Average Grant-Date Fair Value
Unvested as of December 31, 2014	24,619,549	$ 487.80
Granted	14,415,740	$ 546.46
Vested	(11,182,606)	$ 442.01
Forfeited/canceled	(2,111,497)	$ 481.37
Unvested as of December 31, 2015	25,741,186	$ 531.74
Expected to vest after December 31, 2015 [1]	22,672,837	$ 531.74

(1) RSUs expected to vest reflect an estimated forfeiture rate.

As of December 31, 2015, there was $11.1 billion of unrecognized compensation cost related to unvested RSUs. This amount is expected to be recognized over a weighted-average period of 2.7 years. To the extent the actual forfeiture rate is different from what we have estimated, stock-based compensation expense related to these awards will be

different from our expectations.

Share Repurchases

In October 2015, the board of directors of Alphabet authorized the company to repurchase up to $5,099,019,513.59 of its Class C capital stock, commencing in the fourth quarter of 2015. The repurchases are being executed from time to time, subject to general business and market conditions and other investment opportunities, through open market

purchases or privately negotiated transactions, including through the use of 10b5-1 plans. The repurchase program does not have an expiration date. As of December 31, 2015, we repurchased and subsequently retired approximately 2,391 thousand shares of Alphabet Class C capital stock for an aggregate amount of approximately $1,780 million. Alphabet's share repurchases in the year ended December 31, 2015 were funded by Google via a return of capital to Alphabet.

In January 2016, the board of directors of Alphabet authorized the company to repurchase an additional amount of approximately 514 thousand shares.

Google Stockholders' Equity

As a result of the Alphabet reorganization, Google has recorded various intercompany activities during the fourth quarter ended December 31, 2015 as capital transactions, which are reflected in Google's Consolidated Statements of Stockholders' Equity. Refer to Stock-Based Compensation and Share Repurchases section above, and Note 6, for descriptions of certain activities. Additionally, subsequent to the reorganization, shares withheld to satisfy employee withholding tax obligations and cash received from the exercise of stock options were recorded as capital transactions between Alphabet and Google and are reflected as such in Google's Consolidated Statements of Stockholders' Equity.

Note 14. 401(k) Plans

We have two 401(k) Savings Plans (401(k) Plans) that qualify as deferred salary arrangements under Section 401(k) of the Internal Revenue Code. Under these 401(k) Plans, matching contributions are based upon the amount of the employees' contributions subject to certain limitations. We contributed approximately $202 million, $259 million, and $309 million for the years ended December 31, 2013, 2014, and 2015.

Note 15. Income Taxes

Income from continuing operations before income taxes included income from domestic operations of $7,651 million, $8,894 million, and $8,271 million for the years ended December 31, 2013, 2014, and 2015, and income from foreign operations of $8,248 million, $8,365 million, and $11,380 million for the years ended December 31, 2013, 2014, and 2015.

The provision for income taxes consists of the following (in millions):

	Year Ended December 31,		
	2013	2014	2015
Current:			
Federal	$ 2,394	$ 2,716	$ 3,235
State	127	157	(397)
Foreign	711	774	723
Total	3,232	3,647	3,561
Deferred:			
Federal	(421)	29	(198)
State	0	6	(43)
Foreign	(72)	(43)	(17)
Total	(493)	(8)	(258)
Provision for income taxes	$ 2,739	$ 3,639	$ 3,303

The reconciliation of federal statutory income tax rate to our effective income tax rate is as follows (in millions):

	Year Ended December 31,		
	2013	2014	2015
Expected provision at federal statutory tax rate (35%)	$ 5,567	$ 6,041	$ 6,878
State taxes, net of federal benefit	133	132	(291)
Change in valuation allowance	(641)	(164)	(65)
Foreign rate differential	(2,482)	(2,109)	(2,624)
Federal research credit	(433)	(318)	(407)
Basis difference in investment of Arris	644	0	0
Other adjustments	(49)	57	(188)
Provision for income taxes	$ 2,739	$ 3,639	$ 3,303

A retroactive and permanent reinstatement of the federal research credit was signed into law on December 18, 2015 in accordance with the Protecting Americans from Tax Hikes Act of 2015. As such, our effective tax rate for 2015 reflects the benefit of the 2015 federal research and development tax credit.

A retroactive extension of the 2012 federal research and development credit was signed into law on January 2, 2013 in accordance with The American Taxpayer Act of 2012. The benefit of $189 million related to the 2012 federal research and development credit is included in the year ended December 31, 2013.

Our effective tax rate for 2015 included a discrete tax benefit related to refunds and reductions in uncertain tax positions due to the resolution of a multi-year tax audit in the U.S.

Our effective tax rate is impacted by earnings realized in foreign jurisdictions with statutory tax rates lower than the federal statutory tax rate. Substantially all of the income from foreign operations was earned by an Irish subsidiary.

We have not provided U.S. income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries as of December 31, 2015 because we intend to permanently reinvest such earnings outside the U.S. If these foreign earnings were to be repatriated in the future, the related U.S. tax liability may be reduced by any foreign income taxes previously paid on these earnings. As of December 31, 2015, the cumulative amount of earnings upon which U.S. income taxes have not been provided is approximately $58.3 billion. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable.

On July 27, 2015, the United States Tax Court, in an opinion in Altera Corp. v. Commissioner, invalidated the portion of the Treasury regulations issued under IRC Section 482 requiring related-party participants in a cost sharing arrangement to share stock-based compensation costs. The U.S. Tax Court issued the final decision on December 28, 2015. The government has 90 days from the final decision date to file a notice of appeal. At this time, the U.S. Treasury has not withdrawn the requirement to include stock-based compensation from its regulations. We have evaluated the opinion and have recorded a tax benefit of $3.5 billion related to reimbursement of cost share payments for the previously shared stock-based compensation costs. In addition, we have recorded a tax liability of $3.5 billion for the U.S. tax cost of potential repatriation of the associated contingent foreign earnings because at this time we cannot reasonably conclude that the Company has the ability and the intent to indefinitely reinvest these contingent earnings. The net impact to our consolidated financial statements is not material. We will continue to monitor developments related to the case and the potential impact on our consolidated financial statements.

Deferred Income Taxes

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of our deferred tax assets and liabilities are as follows (in millions):

	As of December 31,	
	2014	2015
Deferred tax assets:		
Stock-based compensation expense	$ 376	$ 534
State taxes	133	119
Investment loss	133	144
Legal settlement accruals	175	101
Accrued employee benefits	671	832
Accruals and reserves not currently deductible	175	245
Net operating losses	207	230
Tax credits	262	503
Basis difference in investment of Arris	1,347	1,357
Prepaid cost sharing	0	3,468
Other	243	337
Total deferred tax assets	3,722	7,870
Valuation allowance	(1,659)	(1,732)
Total deferred tax assets net of valuation allowance	2,063	6,138
Deferred tax liabilities:		
Depreciation and amortization	(852)	(1,126)
Identified intangibles	(965)	(787)
Mark-to-market investments	(273)	(93)
Renewable energy investments	(430)	(529)
Foreign earnings	0	(3,468)
Other	(125)	(73)
Total deferred tax liabilities	(2,645)	(6,076)
Net deferred tax liabilities	$ (582)	$ 62

As of December 31, 2015, our federal and state net operating loss carryforwards for income tax purposes were approximately $482 million and $443 million. If not utilized, the federal net operating loss carryforwards will begin to expire in 2021 and the state net operating loss carryforwards will begin to expire in 2016. The net operating loss carryforwards are subject to various annual limitations under the tax laws of the different jurisdictions. Our foreign net operating loss carryforwards for income tax purposes were $263 million that can be carried over indefinitely.

As of December 31, 2015, our California research and development credit carryforwards for income tax purposes were approximately $1,044 million that can be carried over indefinitely. We believe the state tax credit is not likely to be realized. Our foreign tax credit carryforwards for income tax purposes were approximately $223 million that will start to expire in 2025. We believe it is more likely than not that all of the foreign tax credit will be realized.

As of December 31, 2015, we maintained a valuation allowance with respect to certain of our deferred tax assets relating primarily to investment losses that are capital in nature, California deferred tax assets, and certain foreign net operating losses that we believe are not likely to be realized. We established a deferred tax asset for the book-to-tax basis difference in our investments in Arris shares received from the sale of the Motorola Home business to Arris in 2013. Since any future losses to be recognized upon the sale of Arris shares will be capital losses, a valuation allowance has been recorded against this deferred tax asset to the extent such deferred tax asset is not covered by capital gains generated as of 2015. We reassess the valuation allowance quarterly and if future evidence allows for a partial or full release of the valuation allowance, a tax benefit will be recorded accordingly.

As a result of the Altera opinion, we have recorded a deferred tax asset of $3.5 billion and a deferred tax liability

of $3.5 billion. Refer to above for more details on the Altera case.

Uncertain Tax Positions

The following table summarizes the activity related to our gross unrecognized tax benefits from January 1, 2013 to December 31, 2015 (in millions):

Balance as of January 1, 2013	$	1,907
Increases related to prior year tax positions		158
Decreases related to prior year tax positions		(37)
Decreases related to settlement with tax authorities		(78)
Increases related to current year tax positions		552
Balance as of December 31, 2013		2,502
Increases related to prior year tax positions		66
Decreases related to prior year tax positions		(44)
Decreases related to settlement with tax authorities		(1)
Increases related to current year tax positions		771
Balance as of December 31, 2014		3,294
Increases related to prior year tax positions		224
Decreases related to prior year tax positions		(176)
Decreases related to settlement with tax authorities		(27)
Increases related to current year tax positions		852
Balance as of December 31, 2015	$	4,167

The total amount of gross unrecognized tax benefits was $2,502 million, $3,294 million, and $4,167 million as of December 31, 2013, 2014, and 2015, respectively, of which, $2,309 million, $2,909 million, and $3,614 million, if recognized, would affect our effective tax rate.

As of December 31, 2014 and 2015, we had accrued $239 million and $348 million in interest and penalties in provision for income taxes.

We file income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions, our two major tax jurisdictions are the U.S. federal and Ireland. We are subject to the continuous examination of our income tax returns by the IRS and other tax authorities. The IRS completed its examination of our 2003 through 2006 tax years; all issues have been settled except for one which we have filed an appeal with the IRS and plan to litigate in court. The IRS is currently in examination of our 2007 through 2012 tax years. We have also received tax assessments in multiple foreign jurisdictions asserting transfer pricing adjustments or permanent establishment. We continue to defend any and all such claims as presented.

Our 2013, 2014, and 2015 tax years remain subject to examination by the IRS for U.S. federal tax purposes, and our 2011 through 2015 tax years remain subject to examination by the appropriate governmental agencies for Irish tax purposes. There are other ongoing audits in various other jurisdictions that are not material to our financial statements.

We regularly assess the likelihood of adverse outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. We continue to monitor the progress of ongoing discussions with tax authorities and the impact, if any, of the expected expiration of the statute of limitations in various taxing jurisdictions.

We believe that an adequate provision has been made for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. If any issues addressed in our tax audits are resolved in a manner not consistent with management's expectations, we could be required to adjust our provision for income taxes in the period such resolution occurs. Although the timing of resolution, settlement, closure of audits is not certain, we do not believe it is reasonably possible that our unrecognized tax benefits will materially change in the next 12 months.

Note 16. Information about Segments and Geographic Areas

In conjunction with the Alphabet reorganization, in the fourth quarter of 2015, we implemented legal and operational changes in how our Chief Operating Decision Maker (CODM) manages our businesses, including resource allocation and performance assessment. Consequently, we have multiple operating segments, representing the individual businesses run separately under the Alphabet structure.

COEX
8.188

Google is our only reportable segment. None of our other segments meet the quantitative thresholds to qualify as reportable segments; therefore, the operating segments are combined and disclosed below as Other Bets. All prior-period amounts have been adjusted retrospectively to reflect the reportable segment change.

Our reported segments are described below:

- Google – Google includes our main internet products such as Search, Ads, Commerce, Maps, YouTube, Apps, Cloud, Android, Chrome, Google Play as well as hardware products we sell, such as Chromecast, Chromebooks and Nexus. Our technical infrastructure and newer efforts like Virtual Reality are also included in Google. Google generates revenues primarily from advertising, sales of digital content, apps and cloud services, as well as sales of Google branded hardware.
- Other Bets – Other Bets is a combination of multiple operating segments that are not individually material. Other Bets includes businesses such as Access/Google Fiber, Calico, Nest, Verily, GV, Google Capital, X, and other initiatives. Revenues from the Other Bets is derived primarily through the sales of Nest hardware products, internet and TV services through Google Fiber and licensing and R&D services through Verily.

Revenue, cost of revenue, and operating expenses are generally directly attributed to our segments. Inter-segment revenues are not presented separately, as these amounts are immaterial. Our CODM does not evaluate operating segments using asset information.

Information about segments during the periods presented were as follows (in millions):

	Year Ended December 31,		
	2013	2014	2015
Revenues:			
Google	$ 55,507	$ 65,674	$ 74,541
Other Bets	12	327	448
Total revenues	$ 55,519	$ 66,001	$ 74,989

	Year Ended December 31,		
	2013	2014	2015
Segment operating income (loss):			
Google	$ 16,260	$ 19,011	$ 23,425
Other Bets	(527)	(1,942)	(3,567)
Reconciling items[(1)]	(330)	(573)	(498)
Total income from operations	$ 15,403	$ 16,496	$ 19,360

(1) Reconciling items are primarily related to corporate administrative costs and other miscellaneous items that are not allocated to individual segments.

	Year Ended December 31,		
	2013	2014	2015
Capital expenditures:			
Google	$ 7,006	$ 11,173	$ 8,849
Other Bets	187	501	869
Reconciling items[(2)]	165	(715)	197
Total capital expenditures as presented in Consolidated Statements of Cash Flow	$ 7,358	$ 10,959	$ 9,915

(2) Reconciling items are primarily related to timing differences of payments as segment capital expenditures are on accrual basis while total capital expenditures shown on the Consolidated Statements of Cash Flow are on cash basis, capital expenditures of Motorola Mobile and Home, and other miscellaneous differences.

Stock-based compensation and depreciation, amortization and impairment are included in segment operating income (loss) as below (in millions):

	Year Ended December 31,		
	2013	2014	2015
Stock-based compensation:			
Google	$ 2,911	$ 3,677	$ 4,587
Other Bets	124	347	498
Reconciling items[3]	92	151	118
Total stock based compensation, excluding discontinued operations[4]	$ 3,127	$ 4,175	$ 5,203
Depreciation, amortization and impairment:			
Google	$ 3,668	$ 4,778	$ 4,839
Other Bets	24	148	203
Reconciling items[5]	247	53	21
Total depreciation, amortization and impairment as presented in Consolidated Statements of Cash Flow	$ 3,939	$ 4,979	$ 5,063

(3) Reconciling items represent corporate administrative costs that are not allocated to individual segments.

(4) For purposes of segment reporting, we define SBC as awards accounted for under FASB ASC Topic 718 that we expect to settle in stock. SBC does not include expenses related to awards that we will ultimately settle in cash. Amounts exclude SBC from discontinued operations**.**

(5) Reconciling items primarily represent depreciation, amortization and impairment related to Motorola Mobile and Motorola Home.

Revenues by geography are based on the billing addresses of our customers. The following tables set forth revenues and long-lived assets by geographic area (in millions):

	Year Ended December 31,		
	2013	2014	2015
Revenues:			
United States	$ 25,587	$ 29,482	$ 34,810
United Kingdom	5,600	6,483	7,067
Rest of the world	24,332	30,036	33,112
Total revenues	$ 55,519	$ 66,001	$ 74,989

	As of December 31, 2014	As of December 31, 2015
Long-lived assets:		
United States	$ 37,421	$ 43,686
International	13,110	13,661
Total long-lived assets	$ 50,531	$ 57,347

Note 17. Revision of Previously Issued Financial Statements

In the second quarter of 2015, we identified an incorrect classification of certain revenues between legal entities, and as a consequence, we revised our income tax expense for periods beginning in 2008 through the first quarter of 2015 in the cumulative amount of $711 million. We have evaluated the materiality of the income tax expense impact

quantitatively and qualitatively and concluded it was not material to any of the prior periods impacted and that correction of income tax expense as an out of period adjustment in the quarter ended June 30, 2015 is not material to our consolidated financial statements for the year ended December 31, 2015. Consolidated revenues are not impacted. We elected to revise previously issued consolidated financial statements contained within this Annual Report on Form 10-K for the periods impacted to correct the effect of this immaterial income tax expense underaccrual for the corresponding periods.

The following table presents the impact of these corrections on affected Consolidated Balance Sheet line items as of December 31, 2014 (in millions):

	As of December 31, 2014		
	As Previously Reported [1]	Adjustment	As Revised
Selected Balance Sheets Data:			
Income tax receivable, net	$ 1,298	$ (707)	$ 591
Total current assets	79,363	(707)	78,656
Total assets	129,894	(707)	129,187
Income taxes payable, non-current	3,407	(67)	3,340
Retained earnings	75,706	(640)	75,066
Total stockholders' equity	104,500	(640)	103,860
Total liabilities and stockholders' equity	$ 129,894	$ (707)	$ 129,187

[1] Includes reclassifications of deferred tax assets and liabilities related to ASU 2015-17 “Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes.” Refer to Note 1 for further information.

The following table presents the impact of these corrections on affected Consolidated Statements of Income line items, including net income per share amounts for Class A and B common stock and Class C capital stock, for the years ended December 31, 2013 and 2014 (in millions, except per share amounts):

	Year Ended December 31, 2013			Year Ended December 31, 2014		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
Selected Statements of Income Data:						
Provision for income taxes	$ 2,552	$ 187	$ 2,739	$ 3,331	$ 308	$ 3,639
Net income from continuing operations	13,347	(187)	$ 13,160	13,928	(308)	$ 13,620
Net income	12,920	(187)	$ 12,733	14,444	(308)	$ 14,136
Basic net income per share from continuing operations	$ 20.05	$ (0.28)	$ 19.77	$ 20.61	$ (0.46)	$ 20.15
Basic net income per share	19.41	(0.28)	19.13	21.37	(0.46)	20.91
Diluted net income per share from continuing operations	19.70	(0.28)	19.42	20.27	(0.45)	19.82
Diluted net income per share	$ 19.07	$ (0.28)	$ 18.79	$ 21.02	$ (0.45)	$ 20.57

The following table presents the impact of these corrections on affected Consolidated Statements of Comprehensive Income line items for the years ended December 31, 2013 and 2014 (in millions):

	Year Ended December 31, 2013			Year Ended December 31, 2014		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised

COEX
8.188

Selected Statements of Comprehensive Income Data:						
Net income	12,920	(187)	12,733	14,444	(308)	14,136
Comprehensive income	12,507	(187)	12,320	14,346	(308)	14,038

The following table presents the impact of these corrections on affected Consolidated Statements of Cash Flows line items for the years ended December 31, 2013 and 2014 (in millions):

	Year Ended December 31, 2013			Year Ended December 31, 2014		
	As Previously Reported	Adjustment	As Revised	As Previously Reported	Adjustment	As Revised
Selected Statements of Cash Flows Data:						
Net income	$ 12,920	$ (187)	12,733	$ 14,444	$ (308)	$ 14,136
Changes in income taxes, net	401	187	588	283	308	591

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Alphabet

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act, as of the end of the period covered by this Annual Report on Form 10-K.

Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2015, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Our 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 this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2015. Management reviewed the results of its assessment with our Audit Committee. The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in its report which is included in Item 8 of this Annual Report on Form 10-K.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Google

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Exchange Act, as of the end of the period covered by this Annual Report on Form 10-K.

Based on this evaluation, our chief executive officer and chief financial officer concluded that, as of December 31, 2015, our disclosure controls and procedures are designed at a reasonable assurance level and are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) of the Exchange Act. Our 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 this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2015. Management reviewed the results of its assessment with our Audit Committee. The effectiveness of our internal control over financial reporting as of December 31, 2015 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in its report which is included in Item 8 of this Annual Report on Form 10-K.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

ITEM 9B. OTHER INFORMATION

On February 11, 2016, we announced the appointment of James G. Campbell as our Alphabet Corporate Controller, effective February 16, 2016.

Jim, age 60, most recently held the position of Vice President of Finance and Corporate Controller at Intel Corporation (from 2004 to 2016) where he was responsible for global accounting, financial services and financial reporting. Previously, Jim was based in Europe, responsible for Intel's international finance operations. He has also been manager of Intel's Financial Information Systems, responsible for designing, developing and implementing Intel's internally used financial applications. In addition, he has served as Asia regional audit manager, Microprocessor Group controller and European Controller. Jim was at Intel for over 30 years and also led and managed the international controllers responsible for financial services, statutory compliance and business support.

Jim received his bachelor's degree in business and accounting from California State University, Hayward. He holds a CPA license and is a member of the Financial Executives Committee on Corporate Reporting (CCR), the Executive Committee of CCR, the FASB Emerging Issues Task Force (EITF), the PCAOB Standing Advisory Group (Emeritus), the Portland State University Graduate School of Business Advisory Board and serves on the Board of Trustees Portland Chapter of World Affairs Council.

The material terms of Jim's compensation are as follows:

- Salary: $475,000
- Equity:
  - $3.5 million equity grant (Initial Grant) made shortly after hire vesting monthly over 12 months
  - $3.5 million equity grant to be made in Q1 2017, to start vesting monthly over 12 months upon the full vest of the Initial Grant
- $250,000 sign-on bonus, subject to a pro-rated repayment if employment ends within the first 12 months

Jim will also be eligible to participate in the compensation and benefit programs generally available to Google's officers.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item will be included under the caption "Directors, Executive Officers, and Corporate Governance" in our Proxy Statement for 2016 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended December 31, 2015 (2016 Proxy Statement) and is incorporated herein by reference. The information required by this item regarding delinquent filers pursuant to Item 405 of Regulation S-K will be included under the caption "Section 16(a) Beneficial Ownership Reporting Compliance" in the 2016 Proxy Statement and is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item will be included under the captions "Director Compensation," "Executive Compensation" and "Directors, Executive Officers, and Corporate Governance —Corporate Governance and Board Matters —Compensation Committee Interlocks and Insider Participation" in the 2016 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item will be included under the captions "Common Stock Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in 2016 Proxy Statement and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item will be included under the captions "Certain Relationships and Related Transactions" and "Directors, Executive Officers, and Corporate Governance —Corporate Governance and Board Matters —Director Independence" in the 2016 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item will be included under the caption "Independent Registered Public Accounting Firm" in the 2016 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) We have filed the following documents as part of this Annual Report on Form 10-K:

1. Consolidated Financial Statements

Reports of Ernst & Young LLP, Independent Registered Public Accounting Firm 45
Financial Statements of Alphabet Inc.:
Consolidated Balance Sheets 48
Consolidated Statements of Income 49
Consolidated Statements of Comprehensive Income 50
Consolidated Statements of Stockholders' Equity 51
Consolidated Statements of Cash Flows 52
Financial Statements of Google Inc.:
Google Balance Sheets 53
Google Statements of Income 54
Google Statements of Comprehensive Income 55
Google Statements of Stockholders' Equity 56
Google Statements of Cash Flows 57
Notes to Consolidated Financial Statements 58

2. Financial Statement Schedules

Schedule II: Valuation and Qualifying Accounts

The table below details the activity of the allowance for doubtful accounts for the three years ended December 31, 2015 (in millions):

	Balance at Beginning of Year	Additions	Usage	Balance at End of Year
		(In millions)		
Year ended December 31, 2013	$ 581	$ 1,128	$ (1,078)	$ 631
Year ended December 31, 2014	$ 631	$ 1,240	$ (1,646)	$ 225
Year ended December 31, 2015	$ 225	$ 579	$ (508)	$ 296

Note: Additions to the allowance for doubtful accounts are charged to expense. Additions to the allowance for sales credits are charged against revenues. For the year ended December 31, 2013 and 2014, additions included the impact from the Motorola acquisition. For the years ended December 31, 2013 and 2014, usages include the impact from the sale of Motorola Home and Mobile businesses, respectively.

All other schedules have been omitted because they are not required, not applicable, or the required information is otherwise included.

3. Exhibits

See the Exhibit Index immediately following the signature page of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 11, 2016

ALPHABET INC.

By: /S/ LARRY PAGE

Larry Page
Chief Executive Officer
(Principal Executive Officer of Alphabet Inc.)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Larry Page and Ruth Porat, jointly and severally, his or her attorney-in-fact, with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/S/ LARRY PAGE **Larry Page**	Chief Executive Officer, Co-Founder and Director (Principal Executive Officer of Alphabet Inc.)	February 11, 2016
/S/ RUTH PORAT **Ruth Porat**	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer of Alphabet Inc.)	February 11, 2016
/S/ ERIC E. SCHMIDT **Eric E. Schmidt**	Executive Chairman	February 11, 2016
/S/ SERGEY BRIN **Sergey Brin**	President, Co-Founder and Director	February 11, 2016
/S/ L. JOHN DOERR **L. John Doerr**	Director	February 11, 2016
/S/ DIANE B. GREENE **Diane B. Greene**	Director	February 11, 2016
/S/ JOHN L. HENNESSY **John L. Hennessy**	Director	February 11, 2016
/S/ ANN MATHER **Ann Mather**	Director	February 11, 2016
/S/ ALAN R. MULALLY **Alan R. Mulally**	Director	February 11, 2016
/S/ PAUL S. OTELLINI **Paul S. Otellini**	Director	February 11, 2016
/S/ K. RAM SHRIRAM **K. Ram Shriram**	Director	February 11, 2016
/S/ SHIRLEY M. TILGHMAN **Shirley M. Tilghman**	Director	February 11, 2016

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 11, 2016

GOOGLE INC.

By: /S/ SUNDAR PICHAI

Sundar Pichai

Chief Executive Officer
(Principal Executive Officer of Google Inc.)

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Sundar Pichai and Ruth Porat, jointly and severally, his or her attorney-in-fact, with the power of substitution, for him or her in any and all capacities, to sign any amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his or her substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ SUNDAR PICHAI **Sundar Pichai**	Chief Executive Officer (Principal Executive Officer of Google Inc.)	February 11, 2016
/s/ RUTH PORAT **Ruth Porat**	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer of Google Inc.)	February 11, 2016
/s/ ERIC E. SCHMIDT **Eric E. Schmidt**	Executive Chairman	February 11, 2016
/s/ LARRY PAGE **Larry Page**	Co-Founder and Director	February 11, 2016
/s/ SERGEY BRIN **Sergey Brin**	Co-Founder and Director	February 11, 2016
/s/ L. JOHN DOERR **L. John Doerr**	Director	February 11, 2016
/s/ DIANE B. GREENE **Diane B. Greene**	Director	February 11, 2016
/s/ JOHN L. HENNESSY **John L. Hennessy**	Director	February 11, 2016
/s/ ANN MATHER **Ann Mather**	Director	February 11, 2016
/s/ ALAN R. MULALLY **Alan R. Mulally**	Director	February 11, 2016
/s/ PAUL S. OTELLINI **Paul S. Otellini**	Director	February 11, 2016
/s/ K. RAM SHRIRAM **K. Ram Shriram**	Director	February 11, 2016
/s/ SHIRLEY M. TILGHMAN **Shirley M. Tilghman**	Director	February 11, 2016

EXHIBIT INDEX

Exhibit Number	Description	Incorporated by reference herein	
		Form	Date
2.01	Agreement and Plan of Merger, dated October 2, 2015, by and among Google Inc., Alphabet Inc. and Maple Technologies Inc.	Current Report on Form 8-K (File No. 000-36380) and Current Report on Form 8-K (File No. 001-37580)	October 2, 2015
3.01	Amended and Restated Certificate of Incorporation of Alphabet Inc., dated October 2, 2015	Current Report on Form 8-K (File No. 001-37580)	October 2, 2015
3.02	Amended and Restated Bylaws of Alphabet Inc., dated October 2, 2015	Current Report on Form 8-K (File No. 001-37580)	October 2, 2015
3.03	Fourth Amended and Restated Certificate of Incorporation of Google Inc.	Quarterly Report on Form 10-Q (File No. 000-50726)	July 24, 2012
3.04	Amended and Restated Bylaws of Google Inc.	Quarterly Report on Form 10-Q (File No. 000-50726)	July 24, 2012
3.05	Certificate of Merger, dated October 2, 2015	Current Report on Form 8-K (File No. 000-36380)	October 2, 2015
4.01	Specimen Class A Common Stock certificate	Current Report on Form 8-K (File No. 001-37580)	October 2, 2015
4.02	Specimen Class C Capital Stock certificate	Current Report on Form 8-K (File No. 001-37580)	October 2, 2015
4.03	Indenture, dated as of May 19, 2011 between Google Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee	Current Report on Form 8-K (File No. 000-50726)	May 19, 2011
4.04	Form of 2.125% Note due 2016	Current Report on Form 8-K (File No. 000-50726)	May 19, 2011
4.05	Form of 3.625% Note due 2021	Current Report on Form 8-K (File No. 000-50726)	May 19, 2011
4.06	Form of 3.375% Note due 2024	Current Report on Form 8-K (File No. 000-50726)	February 25, 2014
4.07	Alphabet Inc. Deferred Compensation Plan	Current Report on Form 8-K (File No. 001-37580)	October 2, 2015
4.08	Terms of Revised Stipulation of Compromise and Settlement of *In Re: Google Inc. Class C Shareholder Litigation* (Consol. C.A. No. 7469-CS)	Registration Statement on Form 8-A (File No. 001-36380)	March 26, 2014
4.09	Transfer Restriction Agreement, dated October 2, 2015, between Alphabet Inc. and Larry Page and certain of his affiliates	Current Report on Form 8-K (File No. 001-37580)	October 2, 2015
4.10	Transfer Restriction Agreement, dated October 2, 2015, between Alphabet Inc. and Sergey Brin and certain of his affiliates	Current Report on Form 8-K (File No. 001-37580)	October 2, 2015
4.11	Transfer Restriction Agreement, dated October 2, 2015, between Alphabet Inc. and Eric E. Schmidt and certain of its affiliates	Current Report on Form 8-K (File No. 001-37580)	October 2, 2015

4.12		Class C Undertaking, dated October 2, 2015, executed by Alphabet Inc.	Current Report on Form 8-K (File No. 001-37580)	October 2, 2015
10.01		Form of Indemnification Agreement entered into between Alphabet Inc., its affiliates and its directors and officers	Current Report on Form 8-K (File No. 001-37580)	October 2, 2015
10.02	u	Offer Letter, dated March 20, 2015, between Ruth Porat and Google Inc.	Current Report on Form 8-K (File No. 001-36380)	March 26, 2015

Exhibit Number		Description	Incorporated by reference herein	
			Form	Date
10.03	u	Compensation Plan Agreement, dated October 2, 2015, between Google Inc. and Alphabet Inc.	Current Report on Form 8-K (File No. 000-36380) and Current Report on Form 8-K (File No. 001-37580)	October 2, 2015
10.04	u	Director Arrangements Agreement, dated October 2, 2015, between Google Inc. and Alphabet Inc.	Current Report on Form 8-K (File No. 000-36380) and Current Report on Form 8-K (File No. 001-37580)	October 2, 2015
10.05	u	Google Restricted Stock Unit Agreement, dated September 9, 2015, between Google Inc. and Omid Kordestani	Quarterly Report on Form 10-Q (File No. 001-36380)	October 29, 2015
10.06	u	Google Inc. 2004 Stock Plan, as amended	Current Report on Form 8-K (File No. 000-50726)	June 7, 2011
10.06.1	u	Google Inc. 2004 Stock Plan-Form of Stock Option Agreement	Annual Report on Form 10-K (File No. 000-50726)	March 30, 2005
10.06.2	u	Google Inc. 2004 Stock Plan-Form of Restricted Stock Unit Agreement	Annual Report on Form 10-K (File No. 000-50726)	March 30, 2005
10.06.3	u	Google Inc. 2004 Stock Plan-Amendment to Stock Option Agreements	Registration Statement on Form S-3 (File No. 333-142243)	April 20, 2007
10.07	u	Alphabet Inc. 2012 Stock Plan	Current Report on Form 8-K (File No. 333-00050726)	June 26, 2012
10.07.1	u*	Alphabet Inc. 2012 Stock Plan - Form of Alphabet Restricted Stock Unit Agreement		
10.08	u	Motorola Mobility Holdings, Inc. 2011 Incentive Compensation Plan	Registration Statement on Form S-8 (File No. 333-181661)	May 24, 2012
10.09	u	AdMob, Inc. 2006 Stock Plan and UK Sub-Plan of the AdMob, Inc. 2006 Stock Plan	Registration Statement on Form S-8 filed (File No. 333-167411)	June 9, 2010
10.10	u	Click Holding Corp. 2005 Stock Incentive Plan	Registration Statement on Form S-8 (File No. 333-149956)	March 28, 2008
12	*	Computation of Earnings to Fixed Charge Ratios		
14.01		Code of Conduct of Alphabet Inc. dated October 2, 2015	Current Report on Form 8-K (File No. 001-37580)	October 2, 2015
21.01	*	Subsidiaries of the Registrants		
23.01	*	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm		
24.01	*	Power of Attorney (incorporated by reference to the signature page of this Annual Report on Form 10-K)		
31.01	*	Certification of Chief Executive Officer of Alphabet Inc. pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		

COEX
8.188

31.02	*	Certification of Chief Financial Officer of Alphabet Inc. pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Exhibit Number		Description	Incorporated by reference herein	
			Form	Date
31.03	*	Certification of Chief Executive Officer of Google Inc. pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		
31.04	*	Certification of Chief Financial Officer of Google Inc. pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002		
32.01	‡	Certifications of Chief Executive Officer and Chief Financial Officer of Alphabet Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		
32.02	‡	Certifications of Chief Executive Officer and Chief Financial Officer of Google Inc. pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002		
101.INS		XBRL Instance Document		
101.SCH		XBRL Taxonomy Extension Schema Document		
101.CAL		XBRL Taxonomy Extension Calculation Linkbase Document		
101.DEF		XBRL Taxonomy Extension Definition Linkbase Document		
101.LAB		XBRL Taxonomy Extension Label Linkbase Document		
101.PRE		XBRL Taxonomy Extension Presentation Linkbase Document		

---

u Indicates management compensatory plan, contract, or arrangement.

* Filed herewith.

‡ Furnished herewith.

Exhibit 10.07.1

ALPHABET INC.

2012 STOCK PLAN

ALPHABET RESTRICTED STOCK UNIT AGREEMENT

This Alphabet Restricted Stock Unit Agreement (the "Agreement") is entered into as of [DATE] (the "Grant Date") by and between [NAME] (the "Participant") and Alphabet Inc., a Delaware corporation ("Alphabet", and together with its Subsidiaries, the "Company").

I. GRANT OF AWARD

Alphabet has granted the Participant an award of Alphabet restricted stock units (the GSUs") pursuant to the Alphabet Inc. 2012 Stock Plan (the "Plan"). Each GSU represents the right to receive one share of Capital Stock, subject to the terms and conditions of the Plan and this Agreement, including any special terms and conditions for the jurisdiction in which the Participant resides contained in Exhibit A or any other appendix hereto (the "Appendix"). Certain details of the GSUs, specifically the number of GSUs and the vesting schedule of the GSUs (collectively, the "GSU Details") are accessible to the Participant through the Participant's brokerage account and the GSU Details are hereby incorporated into this Agreement by reference. Capitalized terms used but not otherwise defined in this Agreement shall have the meanings given to such terms in the Plan.

II. TERMS OF GSUs

1. Vesting of GSUs.

(a) In General. Except as otherwise provided in subsection (b) below, the GSUs will vest in accordance with the vesting schedule set forth in the GSU Details, subject to the Participant's continued employment with, or service to, the Company on each applicable vesting date. In the event the Participant ceases to be employed by, or ceases to provide services to, the Company for any reason except his or her death (as set forth in subsection (b) below), if applicable, all of the then outstanding and unvested GSUs will be forfeited effective as of the date that the Participant ceases to be employed by, or ceases to provide services to, the Company (the "Termination Date") and the Participant will have no further rights to such unvested GSUs. Unless and until the GSUs have vested, the Participant will have no right to the delivery of any shares of Capital Stock pursuant thereto and prior to the actual delivery of the shares of Capital Stock pursuant to the GSUs, the GSUs represent an unfunded, unsecured obligation of the Company, payable (if at all) only from the general assets of the Company.

(b) Death of Participant. In the event that the Participant ceases to be employed by, or ceases to provide services to, the Company as a result of the Participant's death, then (i) all of the then outstanding and unvested GSUs shall immediately vest as of the Termination Date; provided, that, if the Participant is a director or executive officer (within the meaning of Section 16 of the Exchange Act and the regulations thereunder) of Alphabet (each, a "Section 16 Person") as of the Grant Date and/or as of the Participant's death, then such vesting acceleration shall not be applicable and all of the then outstanding and unvested GSUs shall be forfeited effective as of the Termination Date, and (ii) any delivery of shares of Capital Stock to be made to the Participant under this Agreement will be made to the Participant's designated beneficiary, provided that such beneficiary has been designated prior to the Participant's death; in the absence of any such effective designation,

the shares will be delivered to the administrator or executor of the Participant's estate. Any such administrator or executor must furnish Alphabet with (A) written notice of his or her status as transferee, (B) a copy of the will and/or such evidence as the Committee may deem necessary to establish the validity of the transfer, and (C) an agreement by the transferee to comply with all the terms and conditions of the GSUs that are or would be applicable to the Participant and to be bound by the acknowledgments made by the Participant hereunder. Delivery of the shares of Capital Stock pursuant to the GSUs will be made as soon as practicable following the Termination Date but in no event later than thirty (30) days following such date.

2. Settlement of GSUs. Settlement of vested GSUs shall occur as soon as practicable following the applicable vesting date, but in no event later than thirty (30) days following such vesting date. Alphabet will settle the vested GSUs by issuing (either in book-entry form or otherwise) to the Participant (or the Participant's beneficiary or estate, in the event of the Participant's death), one share of Capital Stock for each vested GSU, subject to satisfaction of all applicable Tax-Related Items, as described in Section 4 below.

Leave of Absence; Reduced Schedule. Vesting of the GSUs during (i) any leave of absence of the Participant and (ii) any period during which the Participant works a reduced schedule, shall be subject to the terms and conditions of the Leaves of Absence and Award Vesting Policy, as in effect on the Grant Date.

3. Taxes.

(a) Liability for Tax-Related Items. The Participant acknowledges that the Participant is ultimately liable and responsible for any and all income taxes (including federal, state and local income taxes), social insurance, payroll taxes and other tax-related withholding (the "Tax-Related Items") arising in connection with the GSUs, regardless of any action the Company takes with respect to such Tax-Related Items. The Participant further acknowledges that Company (i) does not make any representation or undertaking regarding the treatment of any Tax-Related Item in connection with any aspect of the GSUs, including the grant, vesting and settlement of the GSUs, or the subsequent sale of shares of Capital Stock acquired upon settlement of the GSUs and (ii) does not commit, and is under no obligation, to structure the terms of the GSUs or any aspect of the GSUs to reduce or eliminate the Participant's liability for Tax-Related Items or achieve any particular tax result.

(b) Payment of Withholding Taxes. Notwithstanding any contrary provision of this Agreement, no portion of the GSUs will be settled unless and until satisfactory arrangements (as determined by the Committee) have been made by the Participant with respect to the payment of any taxes which the Company determines must be withheld with respect to such portion of the GSUs; provided, that if the Participant fails to make satisfactory arrangements with respect to such taxes within two and one half (2.5) months following the end of the calendar year in which the applicable vesting date occurs, then the applicable portion of the GSUs shall be forfeited.

(i) Unless the Participant is a Section 16 Person at the time that the GSUs, or a portion thereof, are settled, the Committee may use any method permitted by the Plan to satisfy the federal, state and local withholding tax requirements attributable to the GSUs, or portion thereof, being settled; and

(ii) If the Participant is a Section 16 Person at the time that the GSUs, or a portion thereof, are settled, then the Committee shall, pursuant to such procedures as it may specify from time to time, withhold a number of shares of Capital Stock otherwise issuable upon settlement of the GSUs, or portion thereof, having an aggregate Fair Market Value sufficient to satisfy the federal, state and local withholding tax requirements attributable to the GSUs, or such portion thereof, but not greater than the withholding obligations, as determined by the Committee in its discretion; provided, that, the Committee hereby reserves the discretion to amend this Agreement by notice to the Participant and without obtaining the Participant's consent, to allow the Committee to use any one or more methods permitted by the Plan to satisfy the federal, state and local withholding tax requirements attributable to the GSUs, or portion thereof, being settled.

(iii) No fractional shares of Capital Stock shall be issued under this Agreement and all fractional shares will be rounded down to the nearest whole share with a cash payment in respect thereof.

4. Rights as Stockholder. Neither the Participant nor any person claiming under or through the Participant will have any of the rights or privileges of a stockholder of Alphabet in respect of any shares of Capital Stock deliverable pursuant to the GSUs unless and until such shares of Capital Stock have been issued on the records of Alphabet or its transfer agents or registrars. After such issuance, the Participant will have all the rights as a stockholder of Alphabet with respect to such shares of Capital Stock.

5. No Special Employment Rights; No Right to Future Awards. Nothing contained in this Agreement shall confer upon the Participant any right with respect to the continuation of his or her employment by, or service to, the Company or interfere in any way with the right of the Company at any time to terminate such employment or service or to increase or decrease the compensation of the Participant from the rate in existence at the Grant Date. The grant of the GSUs is at the sole discretion of Alphabet and does not create any contractual or other right to receive future awards of GSUs, or benefits in lieu of GSUs, even if GSUs have been awarded to the Participant repeatedly in the past.

6. GSUs Not Transferable. Except to the limited extent provided in Section 1(b) above, the GSUs and the rights and privileges conferred hereby may not be transferred, assigned, pledged or hypothecated in any way by the Participant (whether by operation of law or otherwise) and may not be subject to sale under execution, attachment or similar process. Any attempt by the Participant to transfer, assign, pledge, hypothecate or otherwise transfer the GSUs, or any right or privilege conferred hereby, and any attempted sale under any execution, attachment or similar process, shall be void and unenforceable against the Company.

7. Modification; Entire Agreement; Waiver. No modification of any provision of this Agreement which reduces the Participant's rights hereunder will be valid unless the same is agreed to in writing by the parties hereto. This Agreement, including the Appendix and the GSU Details, together with the Plan, represent the entire agreement between the parties with respect to the GSUs. The failure of Alphabet to enforce at any time any provision of this Agreement will in no way be construed to be a waiver of such provision or of any other provision hereof. Alphabet reserves the right, however, to the extent Alphabet deems necessary or advisable in its sole discretion, to unilaterally alter or modify the terms of the GSUs set forth in this Agreement in order to ensure that the GSUs either qualify for exemption from, or comply with, the requirements of Section 409A of

the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder ("Section 409A"); provided, however that the Company makes no representations that the GSUs will be exempt from, or will comply with, the requirements of Section 409A.

8. Binding Agreement. Subject to the limitation on the transferability of the GSUs contained herein, this Agreement will be binding upon and inure to the benefit of the heirs, legatees, legal representatives, successors and assigns of the parties hereto.

9. Additional Conditions to Issuance of Shares of Capital Stock. Alphabet shall not be required to issue any shares of Capital Stock hereunder prior to fulfillment of all the following conditions: (a) the completion of any registration or other qualification of such shares of Capital Stock under any federal or state law or under the rulings or regulations of the Securities and Exchange Commission or any other governmental regulatory body, or under any stock exchange on which the shares of Capital Stock are listed for trading, which the Committee shall, in its absolute discretion, deem necessary or advisable; (b) the obtaining of any approval or other clearance from any federal or state governmental agency, which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and (c) the lapse of such reasonable period of time not to exceed thirty (30) days following the applicable vesting date of any portion of the GSUs as the Committee may establish from time to time for reasons of administrative convenience.

10. Plan Governs. This Agreement is subject in all respects to all terms and provisions of the Plan and the Plan document is hereby incorporated into this Agreement. In the event of a conflict between one or more provisions of this Agreement and one or more provisions of the Plan, the provisions of the Plan will control.

11. Policy Against Insider Trading. By accepting the GSUs, the Participant acknowledges that (a) a copy of Alphabet's Policy Against Insider Trading (the " Trading Policy") has been made available to the Participant, (b) the Participant has had an opportunity to review the Trading Policy and (c) the Participant is bound by all the terms and conditions of the Trading Policy.

12. Committee Authority. The Committee has full discretionary authority to administer the Plan, including discretionary authority to interpret and construe any and all provisions of the Plan and this Agreement and to adopt and amend from time to time such rules and regulations for the administration of the Plan as the Committee may deem necessary or appropriate. All actions taken and all interpretations and determinations made by the Committee will be final and binding upon the Participant, the Company and all other interested persons.

13. Captions. Captions provided herein are for convenience only and shall not affect the scope, meaning, intent or interpretation of the provisions of this Agreement.

14. Severability. In the event that any provision in this Agreement is held to be invalid or unenforceable for any reason, such provision will be severable from, and such invalidity or unenforceability will not be construed to have any effect on, the remaining provisions of this Agreement.

15. Governing Law. This Agreement shall be construed and administered in accordance with the laws of the State of New York without regard to its conflict of law principles.

16. Section 409A Compliance. It is intended that the Plan and the Agreement comply with, or be exempt from, the requirements of Section 409A and any related guidance promulgated

with respect to such Section by the U.S. Department of the Treasury or the Internal Revenue Service. Accordingly, to the maximum extent permitted, this Agreement shall be interpreted and administered to be in compliance therewith or exempt therefrom. Notwithstanding anything contained herein to the contrary, to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A, the Participant shall not be considered to have terminated employment with, or service to, the Company for purposes of this Agreement until the Participant would be considered to have incurred a "separation from service" from the Company within the meaning of Section 409A. Each amount to be paid or benefit to be provided pursuant to this Agreement shall be construed as a separate identified payment for purposes of Section 409A.

17. Employee Data Privacy.

(c) The Participant hereby explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of his or her personal data as described in this Agreement by and among, as applicable, the Company and its Subsidiaries and affiliates for the exclusive purpose of implementing, administering and managing the Participant's participation in the Plan.

(d) The Participant understands that the Company may hold certain personal information about him or her, including, but not limited to, the Participant's name, home address and telephone number, date of birth, social insurance number or other identification number, salary, nationality, job title, any shares of Capital Stock or directorships held in the Company, details of all entitlement to shares of Capital Stock awarded, canceled, exercised, vested, unvested or outstanding in Participant's favor, for the purpose of implementing, administering and managing the Plan ("Data").

(e) The Participant understands that Data will be transferred to Charles Schwab & Co., Inc., Morgan Stanley Smith Barney, LLC, and/or such other third parties as may be selected by the Company in the future to assist the Company with the implementation, administration and management of the Plan, that these recipients may be located in the Participant's country or elsewhere, and that the recipient's country may have different data privacy laws and protections than the Participant's country. The Participant understands that he or she may request a list with the names and addresses of any potential recipients of the Data by contacting the Participant's local human resources representative.

(f) The Participant authorizes the Company, Charles Schwab & Co., Inc., Morgan Stanley Smith Barney, LLC, and any other possible recipients which may assist the Company (presently or in the future) with implementing, administering and managing the Plan to receive, possess, use, retain and transfer the Data, in electronic or other form, for the sole purpose of implementing, administering and managing the Participant's participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Participant may elect to deposit any shares of Capital Stock acquired upon settlement of the GSUs. The Participant understands that Data will be held only as long as is necessary to implement, administer and manage the Participant's participation in the Plan. The Participant understands that the Participant may, at any time, view Data, request additional information about the storage and processing of Data, require any necessary amendments to Data or refuse or withdraw the consents herein, in any case without cost, by contacting in writing the Participant's local human resources representative. The Participant understands, however, that refusing or withdrawing consent may affect the Participant's ability to participate in the Plan. For more information on the consequences

of the refusal to consent or withdrawal of consent, the Participant understands that he or she may contact his or her local human resources representative.

18. Appendix. Notwithstanding any provisions in this Agreement, if the Participant resides outside of the United States, certain additional general terms and conditions as set forth in the Appendix will apply to the Participant. In addition, the GSUs shall be subject to any special terms and conditions set forth in the Appendix for the jurisdiction in which the Participant resides. If the Participant relocates from the United States to a country outside the United States or relocates between the jurisdictions specified in the Appendix, the additional general and special terms and conditions, as applicable, will apply to the Participant, to the extent that Alphabet determines that the application of such terms and conditions is necessary or advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

19. Acceptance. The Participant must accept the GSUs and agree to the terms and conditions of the GSUs as set forth in the Plan and this Agreement (including the GSU Details and the Appendix), by electronically accepting this Agreement immediately following the Grant Date.

Exhibit 12

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

(In millions, except ratios)	Year Ended December 31, 2011	2012	2013	2014	2015
Earnings:					
Pre-tax income from continuing operations	$ 12,326	$ 14,469	$ 15,899	$ 17,259	$ 19,651
Add:					
Fixed charges	185	233	258	307	349
Pre-tax income from continuing operations plus fixed charges	$ 12,511	$ 14,702	$ 16,157	$ 17,566	$ 20,000
Fixed charges:					
Interest expense and amortization of capitalized expenses related to indebtedness	$ 58	$ 84	$ 83	$ 101	$ 104
Estimated interest component included in rent expense	127	149	175	206	245
Total fixed charges	$ 185	$ 233	$ 258	$ 307	$ 349
Ratio of earnings to fixed charges	68	63	63	57	57

Exhibit 21.01

SUBSIDIARIES OF THE REGISTRANT

The following is a list of subsidiaries of Alphabet Inc., omitting subsidiaries which, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary as of December 31, 2015:

Name of Subsidiary	Jurisdiction of Incorporation or Organization
Google Inc.	Delaware
Google Ireland Holdings	Ireland

Exhibit 23.01

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-207254) of Alphabet Inc. pertaining to the Google Inc. 2004 Stock Plan, Alphabet Inc. 2012 Stock Plan, Click Holding Corp. 2005 Stock Incentive Plan, AdMob, Inc. 2006 Stock Plan, UK Sub-Plan of the AdMob, Inc. 2006 Stock Plan, Motorola Mobility Holdings, Inc. 2011 Incentive Compensation Plan and Alphabet Inc. Deferred Compensation Plan of our reports dated February 11, 2016, with respect to the consolidated financial statements and schedule of Alphabet Inc. and the effectiveness of internal control over financial reporting of Alphabet Inc., incorporated by reference in this Annual Report (Form 10-K) for the year ended December 31, 2015.

/s/ Ernst & Young LLP

San Jose, California

February 11, 2016

Exhibit 31.01

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Larry Page, certify that:

1. I have reviewed this Annual Report on Form 10-K of Alphabet Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2016

/S/ LARRY PAGE

Larry Page
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.02

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ruth Porat, certify that:

1. I have reviewed this Annual Report on Form 10-K of Alphabet Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2016

/S/ RUTH PORAT

Ruth Porat

COEX
8.188

Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

Exhibit 31.03

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Sundar Pichai, certify that:

1. I have reviewed this Annual Report on Form 10-K of Google Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2016

/S/ SUNDAR PICHAI

Sundar Pichai

Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.04

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
EXCHANGE ACT RULES 13a-14(a) AND 15d-14(a),
AS ADOPTED PURSUANT TO
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Ruth Porat, certify that:

1. I have reviewed this Annual Report on Form 10-K of Google Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 11, 2016

/S/ RUTH PORAT

Ruth Porat

COEX
8.188

Senior Vice President and
Chief Financial Officer
(Principal Financial Officer)

COEX
8.188

Exhibit 32.01

CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Larry Page, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Alphabet Inc. for the fiscal year ended December 31, 2015, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Alphabet Inc.

Date: February 11, 2016

By: /S/ LARRY PAGE
Name: Larry Page
Title: Chief Executive Officer
(Principal Executive Officer)

I, Ruth Porat, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Alphabet Inc. for the fiscal year ended December 31, 2015, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Alphabet Inc.

Date: February 11, 2016

By: /S/ RUTH PORAT
Name: Ruth Porat
Title: Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

The foregoing certifications are not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), and are not to be incorporated by reference into any filing of Alphabet Inc. under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

Exhibit 32.02

**CERTIFICATIONS OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Sundar Pichai, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Google Inc. for the fiscal year ended December 31, 2015, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Google Inc.

Date: February 11, 2016

By: /S/ SUNDAR PICHAI
Name: Sundar Pichai
Title: Chief Executive Officer
(Principal Executive Officer)

I, Ruth Porat, certify pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Annual Report on Form 10-K of Google Inc. for the fiscal year ended December 31, 2015, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Annual Report on Form 10-K fairly presents, in all material respects, the financial condition and results of operations of Google Inc.

Date: February 11, 2016

By: /S/ RUTH PORAT
Name: Ruth Porat
Title: Senior Vice President and Chief Financial Officer
(Principal Financial Officer)

The foregoing certifications are not deemed filed with the Securities and Exchange Commission for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), and are not to be incorporated by reference into any filing of Google Inc. under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

COEX-9.1

We need your input: Take our survey

Google the Giant

To Head Off Regulators, Google Makes Certain Words Taboo

The Markup obtained internal documents that coach new employees to avoid creating "very real legal risks" in using words like "market" and "network effects"

By Adrianne Jeffries

August 7, 2020 08:00 ET

As Google faces at least four major antitrust investigations on two continents, internal documents obtained by The Markup show its parent company, Alphabet, has been preparing for this moment for years, telling employees across the massive enterprise that certain language is off limits in all written communications, no matter how casual.

The taboo words include "market," "barriers to entry," and "network effects," which is when products such as social networks become more valuable as more people use them.

Report Deeply and Fix Things

Because it turns out moving fast and breaking things broke some super important things.

"Words matter. Especially in antitrust law," reads one document titled "Five Rules of Thumb for Written Communications."

"Alphabet gets sued a lot, and we have our fair share of regulatory investigations," reads another. "Assume every document will become public."

The internal documents appear to be part of a self-guided training session for a wide range of the company's more than 100,000 employees, from engineers to salespeople. One document, titled "Global

Competition Policy," says it applies not only to interns and employees but also to temps, vendors, and contractors.

The documents explain the basics of antitrust law and caution against loose talk that could have implications for government regulators or private lawsuits.

> "Words matter. Especially in antitrust law."
> **Alphabet internal training document**

In one of the documents, which appear to be written by the legal team, employees are advised to choose their words carefully and use only third-party data when referencing Google's "position in search" in sales pitches. They are further cautioned never to print or hand out their slides.

"We use the term 'User Preference for Google Search' and never the term market share," that document says.

Google Search is the company's most profitable product and, as such, a large target for antitrust regulation. It's estimated that nine in 10 web searches in the U.S. are completed on Google.

To take action against a company, antitrust regulators must establish that it has a dominant share in a market. The more broadly a market is defined, the easier it is for the company to argue that it has real competition. In the slides, employees are cautioned that defining a market is hard and best avoided.

"These are completely standard competition law compliance trainings that most large companies provide to their employees," Google spokesperson Julie Tarallo McAlister said in an email. "We instruct employees to compete fairly and build great products, rather than focus or opine on competitors. We've had these trainings in place for well over a decade."

Bad Words

One part of the presentation, subtitled "Communicating Safely," advises employees on which terms are "Bad" and "Good."

Instead of "market," employees may say "industry," "space," "area," or simply cite the region, according to the presentation.

Instead of "network effects," the presentation suggests "valuable to users."

And instead of "barriers to entry," substitute "challenges."

Alphabet internal training document

COMMUNICATING SAFELY

Bad	Good
"Get ahead of competitors"	"Improve our product/service"
"Defensive rationale: Acquire target before competition"	"Acquire target to improve our product/service"
"Cut off competitors' access to target"	"Integrate target with Google"

- Bad: "The defensive rationale for this acquisition is clear: Get ahead of the competition and cut off their access to the target's product"
- Good: "The rationale for this acquisition is clear: Integrate the target with Google to improve our products for users"

An excerpt from Alphabet internal training documents. Re-created by The Markup to protect sources.

Alphabet is under investigation by 50 attorneys general and the Department of Justice for potentially abusing its dominance to undermine competition. Its acquisitions, along with those of other major U.S. tech giants, are being reviewed for anticompetitive effects by the Federal Trade Commission. The European Commission announced an "in-depth" investigation of Google's acquisition of fitness tracker Fitbit and is probing possible antitrust violations regarding Google for Jobs.

McAlister said Google representatives "continue to engage with ongoing investigations" and pointed to a blog post where the company said its deal with Fitbit "will increase choice."

She also said the company "vigorously" denies claims by Sonos in its patent infringement suit, which alleges that Google first partnered with the company and then copied its technology. Sonos CEO Patrick Spence testified in a hearing before the House Judiciary Committee in January that Google uses its dominance to shut down competition. Google countersued in June, alleging that Sonos infringed on its patents.

Do you have information about how Google's market strength affects competition? Contact this reporter at adrianne@themarkup.org, or send a secure message to 614-347-9853 via Signal or adrjeffries@xmpp.jp on OTR.

Last week, Alphabet CEO Sundar Pichai faced a grueling 61 questions from lawmakers referencing the company's dominance in online video, advertising, search, and other areas at a hearing before the House

Judiciary antitrust subcommittee.

During the hearing, the chair of the subcommittee, Rep. David Cicilline, mentioned an investigation by The Markup that showed Google Search presented its own results and products above competitors'. He held it up as evidence that Google has turned search into a "walled garden."

According to a CSPAN transcript of the hearing, Pichai did not say the words "network effects" or "dominant" once and steered clear of defining any particular market. "Google operates in highly competitive and dynamic global markets, in which prices are free or falling, and products are constantly improving," he said.

Why "Network Effects" Matter

Respected Silicon Valley antitrust lawyers Doug Melamed of Stanford University and Gary Reback of Carr & Ferrell both said it's not unusual for a giant company such as Alphabet to coach employees to avoid talking about dominance.

"It's not just trying to hide the truth, it's really trying to avoid the use of inflammatory language," said Melamed, a former acting assistant attorney general in charge of the antitrust division at the U.S. Department of Justice. "The use of the word 'market' could be very innocent, but it could be misleading and provocative to an antitrust enforcer. Antitrust enforcers really get exercised when they think someone dominates a market."

Alphabet's emphasis in training documents on avoiding the term "network effects" is a new one, both lawyers said, and goes to one of the main issues in tech antitrust.

Report Deeply and Fix Things

Because it turns out moving fast and breaking things broke some super important things.

It was one of the concepts the U.S. government and attorneys general from 20 states and the District of Columbia used to prosecute Microsoft for antitrust violations in 1998. They claimed the company broke the law, in part by using its dominance in the PC market to restrict competition by bundling Internet Explorer and other Microsoft products with the Windows operating system. "The barriers that exist to the entry of new competitors or the expansion of smaller existing competitors, including network effects, mean that dominance once achieved cannot readily be reversed," the DOJ wrote in its complaint.

"Once you admit strong network effects," said Reback, who has represented competitors in antitrust cases against Google, "then it becomes easier for someone like me to say, 'You've gotten this dominant share through exploitation of network effects, it's clear there are high barriers to entry, we're going to need to break you up or do something strong to stop you from abusing your position.' "

> We are not out to 'crush,' 'kill,' 'hurt,' 'block,' or do anything else that might be perceived as evil or unfair."
> **Alphabet training slide**

Reback represented Netscape early on in the Microsoft case and was the co-author of a 222-page white paper about Microsoft that argued that network effects made tech companies gain market share faster than in other industries, and therefore antitrust regulators must be more aggressive.

Alphabet's training documents lay out the basic concepts of antitrust law: "Competition laws, aka antitrust laws, are those that govern the conduct of businesses in order to protect fair competition, and, as a result, protect consumers."

No Crushing

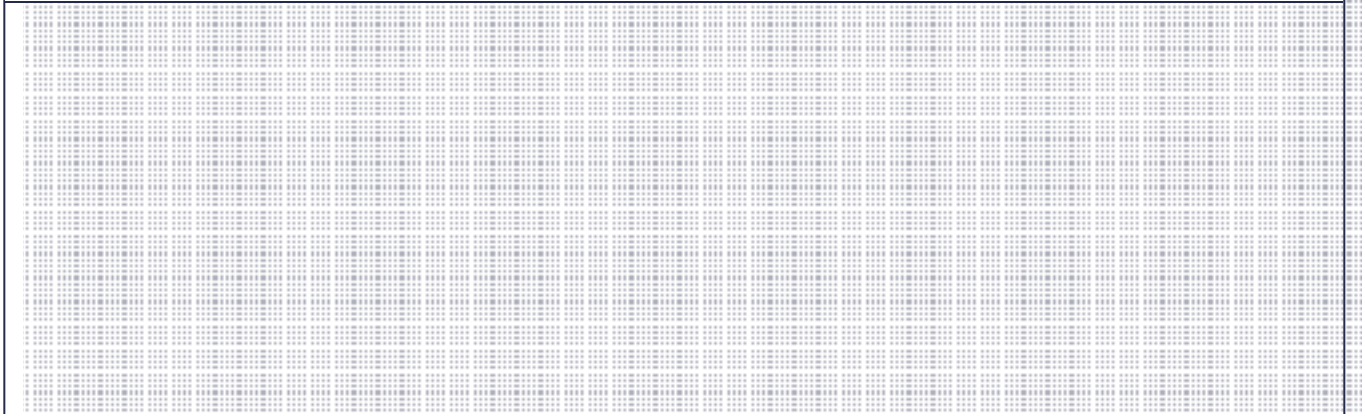
The slides also remind employees to keep the focus on how whatever they're talking about benefits the public, which is a strong defense in antitrust matters: "Pro-tip: when drafting slides, always include at least one that shows how your business decisions will benefit consumers, partners, etc."

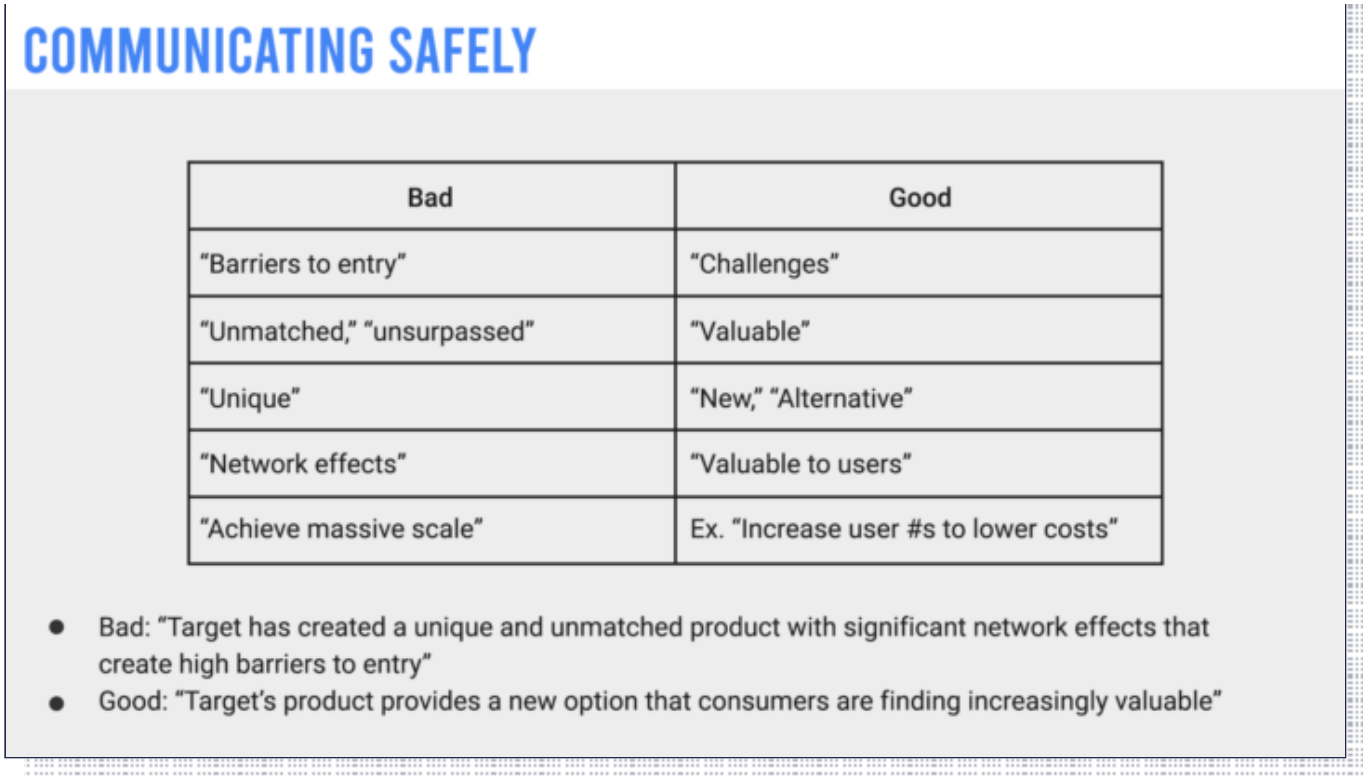
"We are not out to 'crush,' 'kill,' 'hurt,' 'block,' or do anything else that might be perceived as evil or unfair," reads one portion. "Microsoft famously got into trouble when one of their employees threatened to 'cut off Netscape's air supply.' "

Employees are given "Five Rules of Thumb for Written Communications," according to the documents:

1. We're out to help users, not hurt competitors.
2. Our users should always be free to switch, and we don't lock anyone in.
3. We've got lots of competitors, so don't assume we control or dominate any market.
4. Don't try and define a market or estimate our market share.
5. Assume every document you generate, including email, will be seen by regulators.

Alphabet internal training document





COMMUNICATING SAFELY

Bad	Good
"Barriers to entry"	"Challenges"
"Unmatched," "unsurpassed"	"Valuable"
"Unique"	"New," "Alternative"
"Network effects"	"Valuable to users"
"Achieve massive scale"	Ex. "Increase user #s to lower costs"

- Bad: "Target has created a unique and unmatched product with significant network effects that create high barriers to entry"
- Good: "Target's product provides a new option that consumers are finding increasingly valuable"

An excerpt from Alphabet internal training documents. Re-created by The Markup to protect sources.

"If they can get their employees to comply with those guidelines, good for them," said Melamed, the former DOJ antitrust official, who was one of the prosecutors on the Microsoft case. "But most companies' documents are still filled with all sorts of stuff like this."

European regulators have already used internal emails against Alphabet. In an earlier investigation, they found emails that indicated that its shopping product's web traffic doubled in 2008, mostly because it was featured in search listings. The European Commission concluded that the company had abused its dominance and in 2017 fined the company €2.42 billion, a record at the time. "Those emails were quoted selectively and out of context," McAlister said.

Reback, the antitrust lawyer, said there is a limit to how internal communications can be used, especially when they're written by lower-level employees. In general, anticompetitive intent is not part of the legal argument, he said. Rather, lawyers for the plaintiff or the government must establish an anticompetitive effect.

Internal communications from higher-level executives that show apparent anticompetitive intent may have more weight—or at least, generate more publicity. The House Judiciary antitrust subcommittee, which held last week's hearing, collected text messages in which a Facebook

> "I didn't mean to imply that we'd be buying them to prevent them from competing with us in any way...."
> **Facebook CEO Mark Zuckerberg**

executive suggested that CEO Mark Zuckerberg would go into “destroy mode” if Instagram turned down an acquisition offer.

The committee also released an email Zuckerberg wrote musing that “there are network effects around social products” and buying companies like Instagram “will give us a year or more to integrate their dynamics before anyone can get close to their scale again.” He sent another email less than an hour later clarifying that, “I didn’t mean to imply that we’d be buying them to prevent them from competing with us in any way.... I’m mostly excited about what the companies could do together if we worked to build what they’ve invented into more people’s experiences.”

During its 2012 antitrust investigation into Google, the FTC also collected emails, some of which Alphabet’s legal team would have frowned at.

In one, Google’s top economist, Hal Varian, celebrated that market research firm Comscore had undervalued Google’s market share.

“From an antitrust perspective,” Varian wrote, “I’m happy to see them underestimate our share.” The FTC ultimately overrode staff recommendations to take legal action against Google and closed the investigation without filing charges.

Real quick ...

As technology extends its reach into all corners of culture and blackbox algorithms reshape our lives in untold ways, The Markup is working to bring it all into focus.

We’re a nonprofit newsroom that brings tech expertise to tech reporting. We pursue hard-hitting, data-driven analyses and hold powerful institutions to account.

Independent journalism is essential to a healthy society, and your support is essential to independent journalism.

You just read

To Head Off Regulators, Google Makes Certain Words Taboo

From the series — Google the Giant

Credits

Adrianne Jeffries

Investigative Reporter

The Latest

Your contributions help us investigate how technology influences our society.

About Us
Events
Team
A Letter from the Editor
Terms of Use

Our Donors
Board of Directors
Have a Tip?
Privacy Policy

Ethics Policy
Jobs
Newsletters
A Letter from the President
Announcements

Facebook
RSS Feed

Twitter

Instagram

Sign up to get The Markup newsletter in your inbox every Saturday.

Email address

COEX-9.2

The New York Times https://www.nytimes.com/2015/12/23/arts/music/beatles-fans-start-your-streaming-playlists.html

Beatles Catalog Goes on Streaming Services

By Joe Coscarelli

Dec. 23, 2015

Happy holidays from the Beatles: As of 12:01 a.m. on Dec. 24, the band's music will finally be available on streaming services worldwide.

The group announced the news in a 35-second video featuring a medley of its biggest hits that kicks off to the sound of the 1963 single "She Loves You." An accompanying news release simply said: "Happy Crimble, with love from us to you."

However, the surviving members of the group, Paul McCartney and Ringo Starr, along with Universal Music Group, which controls the band's recorded music, made no statements other than the fact that the Beatles' catalog — 13 original albums and four compilations — will now be playable on nine subscription streaming music services: Spotify, Apple Music, Google Play, Amazon Prime Music, Tidal, Deezer, Microsoft Groove, Napster/Rhapsody and Slacker Radio.

Known as singular holdouts in the digital era, the Beatles, the best-selling group of all time, resisted offering its songs on iTunes for more than seven years before coming to an agreement with Apple in 2010. "It's fantastic to see the songs we originally released on vinyl receive as much love in the digital world as they did the first time around," Mr. McCartney said at the time. The band sold 450,000 albums and two million individual songs in its first week on the service, according to Apple.

Now, streaming is the industry sea change too big to ignore. This month, Warner Music Group, one of the so-called big three label groups, said streaming revenue exceeded download revenue for the year. And other classic rock resisters have come around recently: AC/DC started streaming its music this summer, following Led Zeppelin and Pink Floyd in 2013. (The Beatles were already available on Pandora, the Internet radio service, since it does not offer on-demand songs; a court decision recently raised the royalty rate for labels and performers on those services, known as pureplays. The band members' solo material is also widely available.)

Modern artists, however, have started to resist streaming in certain rarefied cases. Taylor Swift, who helped persuade Apple Music to pay royalties during its free-trial period when she protested publicly, has not made her albums available on streaming services with a free tier, like Spotify, while Adele has so far kept her blockbuster "25" off streaming services altogether. The Beatles' music will be available on the free and premium versions of services that have both.

COEX-9.3

Music Directors and Composers

PRINTER-FRIENDLY

Summary | What They Do | Work Environment | How to Become One | Pay | Job Outlook | State & Area Data | Similar Occupations | More Info

Summary

Summary

Quick Facts: Music Directors and Composers	
2020 Median Pay	$52,250 per year $25.12 per hour
Typical Entry-Level Education	Bachelor's degree
Work Experience in a Related Occupation	Less than 5 years
On-the-job Training	None
Number of Jobs, 2020	48,100
Job Outlook, 2020-30	6% (As fast as average)
Employment Change, 2020-30	3,000

What Music Directors and Composers Do

Music directors lead musical groups during performances and recording sessions. Composers write and arrange original music in a variety of musical styles.

Work Environment

Most music directors work for religious organizations and schools, or are self-employed. Music directors may spend a lot of time traveling to different performances. Composers can work in offices, recording studios, or their own homes.

How to Become a Music Director or Composer

Educational and training requirements for music directors and composers vary, although most positions require related work experience. A music director or conductor for a symphony orchestra typically needs a master's degree; a choir director may need a bachelor's degree. There are no formal educational requirements for those interested in writing popular music.

Pay

The median annual wage for music directors and composers was $52,250 in May 2020.

Job Outlook

Employment of music directors and composers is projected to grow 6 percent from 2020 to 2030, about as fast as the average for all occupations.

About 6,000 openings for music directors and composers are projected each year, on average, over the decade. Many of those openings are expected to result from the need to replace workers who transfer to different occupations or exit the labor force, such as to retire.

State & Area Data

Explore resources for employment and wages by state and area for music directors and composers.

Similar Occupations

Compare the job duties, education, job growth, and pay of music directors and composers with similar occupations.

More Information, Including Links to O*NET

Learn more about music directors and composers by visiting additional resources, including O*NET, a source on key characteristics of workers and occupations.

What They Do ->

What They Do

What Music Directors and Composers Do

About this section

Music directors, also called conductors, lead orchestras and other musical groups during performances and recording sessions. Composers write and arrange original music in a variety of musical styles.

Duties

Music directors typically do the following:

- Select musical arrangements and compositions to be performed for live audiences or recordings
- Prepare for performances by reviewing and interpreting musical scores
- Direct rehearsals to prepare for performances and recordings
- Choose guest performers and soloists

- Audition new performers or assist section leaders with auditions
- Practice conducting to improve their technique
- Meet with potential donors and attend fundraisers

Music directors lead orchestras, choirs, and other musical groups. They ensure that musicians play with one coherent sound, balancing the melody, timing, rhythm, and volume. They also give feedback to musicians and section leaders on sound and style.

Music directors may work with a variety of musical groups, including church choirs, youth orchestras, and high school or college bands, choirs, or orchestras. Some work with orchestras that accompany dance and opera companies.

Composers typically do the following:

Composers write and arrange original music in a variety of musical styles.

- Write original music that orchestras, bands, and other musical groups perform
- Arrange existing music into new compositions
- Write lyrics for music or work with a lyricist
- Meet with orchestras, musical groups, and others who are interested in commissioning a piece of music
- Study and listen to music of various styles for inspiration
- Work with musicians to record their music

Composers write music for a variety of types of musical groups and users. Some work in a particular style of music, such as classical or jazz. They also may write for musicals, operas, or other types of theatrical productions.

Some composers write scores for movies or television; others write jingles for commercials. Many songwriters focus on composing music for audiences of popular music.

Some composers use instruments to help them as they write music. Others use software that allows them to hear a piece without musicians.

Some music directors and composers give private music lessons to children and adults. Others teach music in elementary, middle, or high schools. For more information, see the profiles on kindergarten and elementary school teachers, middle school teachers, and high school teachers.

For more information about careers in music, see the profile on musicians and singers.

<- Summary

Work Environment ->

Work Environment

Work Environment

About this section

Music directors and composers held about 48,100 jobs in 2020. The largest employers of music directors and composers were as follows:

Religious, grantmaking, civic, professional, and similar organizations	70%
Self-employed workers	20
Performing arts companies	4
Elementary and secondary schools; state, local, and private	3

Music directors ensure that musicians play with one coherent sound, balancing the melody, timing, rhythm, and volume.

Music directors commonly work in concert halls and recording studios, and they may spend a lot of time traveling to different performances. Composers can work in offices, recording studios, or their own homes.

Jobs for music directors and composers are found all over the country. However, many jobs are located in cities in which entertainment activities are concentrated, such as New York, Los Angeles, Nashville, and Chicago.

Work Schedules

Rehearsals and recording sessions are commonly held during business hours, but performances take place most often on nights and weekends. Because music writing is done primarily independently, composers may be able to set their own schedules.

<- What They Do

How to Become One ->

How to Become One

How to Become a Music Director or Composer

About this section

Educational and training requirements for music directors and composers vary, although most positions require related work experience. A conductor for a symphony orchestra typically needs a master's degree; a choir director may need a bachelor's degree. There are no formal educational requirements for those interested in writing popular music.

Education

Employers generally prefer candidates with a master's degree in music theory, music composition, or conducting for positions as a conductor or classical composer.

Applicants to postsecondary programs in music typically are required to submit recordings, audition in person, or both. These programs teach students about music history and styles, and educate them in composing and conducting techniques. Information on degree programs is available from the National Association of Schools of Music.

A bachelor's degree typically is required for those who want to work as a choir director. Those who work in public schools may need a teaching license or certification. For more information, see the profiles on

In order to become a music director or composer, one must have the talent to play, write, and conduct music.

teachers.

There are no specific educational requirements for those interested in writing popular music. These composers usually find employment by submitting recordings of their compositions to bands, singers, record companies, and movie studios. Composers may promote themselves through personal websites, social media, or online video or audio of their musical work.

Important Qualities

Discipline. Talent is not enough for most music directors and composers to find employment in this field. They must constantly practice and seek to improve their technique and style.

Interpersonal skills. Music directors and composers need to work with agents, musicians, and recording studio personnel. Being friendly, respectful, and open to criticism as well as praise, while enjoying being with others, can help music directors and composers work well with a variety of people.

Leadership. Music directors and composers must guide musicians and singers by preparing musical arrangements and helping them achieve the best possible sound.

Musical talent. To become a music director or composer, one must have musical talent.

Perseverance. Music directors and composers need determination to continue submitting their compositions after receiving rejections. Also, reviewing auditions can be frustrating because it may take many different auditions to find the best musicians.

Promotional skills. Music directors and composers need to promote their performances through local communities, word of mouth, and social media platforms. Good self-promotional skills are helpful in building a fan base and getting more work opportunities.

Training

Music directors and composers typically begin their musical training at a young age by learning to play an instrument or singing, and perhaps performing as a musician or singer. Music directors and composers who are interested in classical music may seek additional training through music camps and fellowships. These programs provide participants with classes, lessons, and performance opportunities.

Work Experience in a Related Occupation

Music directors and composers often work as musicians or singers in a group, a choir, or an orchestra before they take on a leadership role. They use this time to master their instrument and gain an understanding of how the group functions. For more information, see the profile on musicians and singers.

<- Work Environment

Pay ->

Pay

Pay

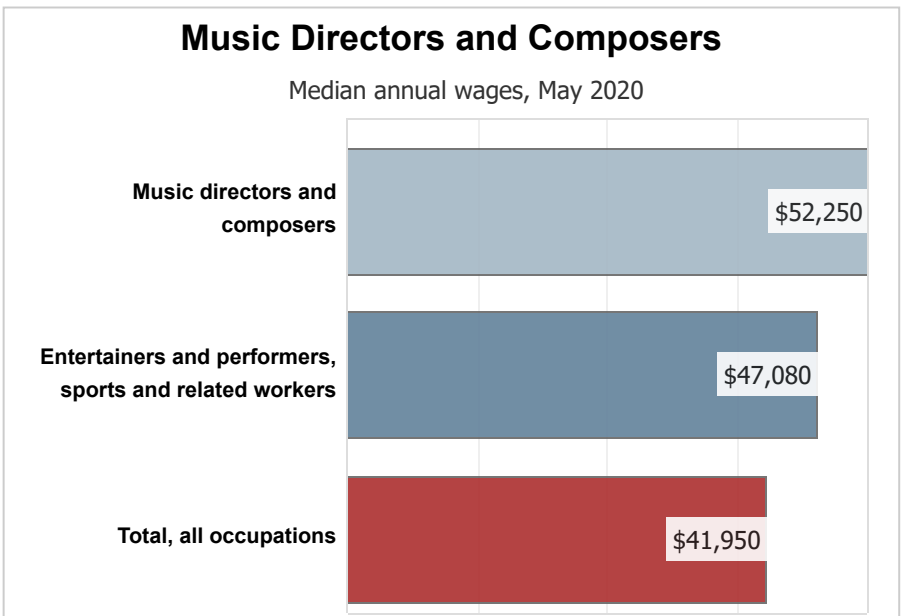
About this section

The median annual wage for music directors and composers was $52,250 in May 2020. The median wage is the wage at which half the workers in an occupation earned more than that amount and half earned less. The lowest 10 percent earned less than $23,890, and the highest 10 percent earned more than $124,390.

In May 2020, the median annual wages for music directors and composers in the top industries in which they worked were as follows:

Performing arts companies	$55,580
Elementary and secondary schools; state, local, and private	52,660
Religious, grantmaking, civic, professional, and similar organizations	45,540

Rehearsals and recording sessions are commonly held during business hours, but performances take place most often on nights and weekends. Because music writing is done primarily independently, composers may be able to set their own schedules.



Note: All Occupations includes all occupations in the U.S. Economy.
Source: U.S. Bureau of Labor Statistics, Occupational Employment and Wage Statistics

<- How to Become One

Job Outlook ->

Job Outlook

Job Outlook

About this section

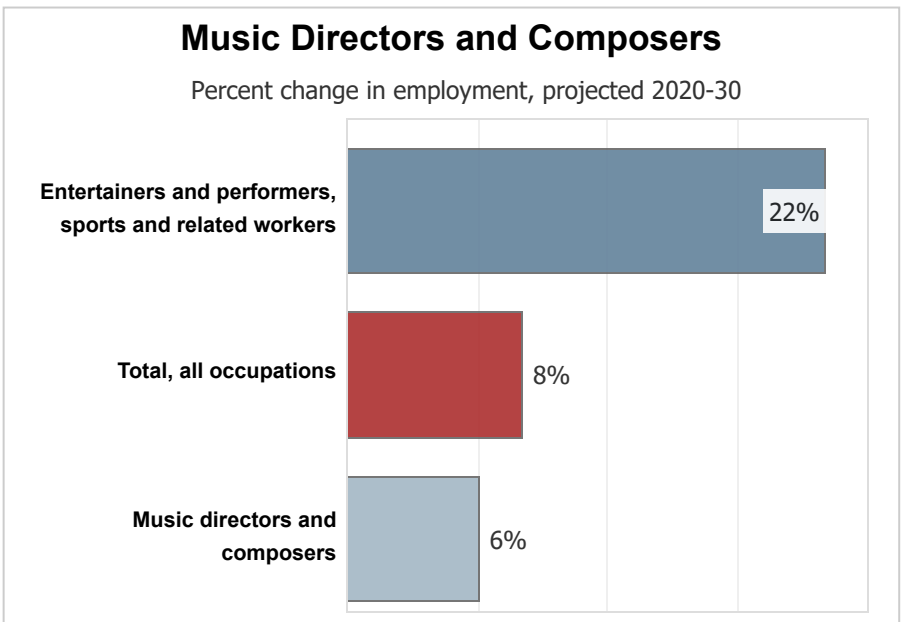
Employment of music directors and composers is projected to grow 6 percent from 2020 to 2030, about as fast as the average for all occupations.

About 6,000 openings for music directors and composers are projected each year, on average, over the decade. Many of those openings are expected to result from the need to replace workers who transfer to different occupations or exit the labor force, such as to retire.

Employment

Music directors will be needed to lead orchestras for concerts and musical theater performances. They also will conduct the music that accompanies ballet troupes and opera companies.

In addition, there will likely be a need for composers to write original music and arrange known works for performances. Composers will be needed as well to write film scores and music for television and commercials.



However, orchestras, opera companies, and other musical groups can have difficulty getting funds. Some music groups are nonprofit organizations that rely on donations and corporate sponsorships, in addition to ticket sales, to fund their work. These organizations often have difficulty finding enough money to cover their expenses. In addition, growth may be limited for music directors in schools due to struggles with school funding, and music programs may be cut.

Note: All Occupations includes all occupations in the U.S. Economy.
Source: U.S. Bureau of Labor Statistics, Employment Projections program

Employment projections data for music directors and composers, 2020-30

Occupational Title	SOC Code	Employment, 2020	Projected Employment, 2030	Change, 2020-30		Employment by Industry
				Percent	Numeric	
Music directors and composers	27-2041	48,100	51,200	6	3,000	Get data
SOURCE: U.S. Bureau of Labor Statistics, Employment Projections program						

<- Pay
State & Area Data ->
State & Area Data

State & Area Data

About this section

Occupational Employment and Wage Statistics (OEWS)

The Occupational Employment and Wage Statistics (OEWS) program produces employment and wage estimates annually for over 800 occupations. These estimates are available for the nation as a whole, for individual states, and for metropolitan and nonmetropolitan areas. The link(s) below go to OEWS data maps for employment and wages by state and area.

- Music directors and composers

Projections Central

Occupational employment projections are developed for all states by Labor Market Information (LMI) or individual state Employment Projections offices. All state projections data are available at www.projectionscentral.com. Information on this site allows projected employment growth for an occupation to be compared among states or to be compared within one state. In addition, states may produce projections for areas; there are links to each state's websites where these data may be retrieved.

CareerOneStop

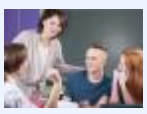
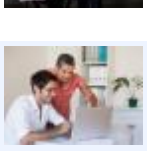
CareerOneStop includes hundreds of occupational profiles with data available by state and metro area. There are links in the left-hand side menu to compare occupational employment by state and occupational wages by local area or metro area. There is also a salary info tool to search for wages by zip code.

<- Job Outlook
Similar Occupations ->
Similar Occupations

Similar Occupations

About this section

This table shows a list of occupations with job duties that are similar to those of music directors and composers.

	OCCUPATION	JOB DUTIES	ENTRY-LEVEL EDUCATION	2020 MEDIAN PAY
	Actors	Actors express ideas and portray characters in theater, film, television, and other performing arts media.	Some college, no degree	The annual wage is not available.
	Dancers and Choreographers	Dancers and choreographers use dance performances to express ideas and stories.	See How to Become One	The annual wage is not available.
	**High School Teachers**	High school teachers teach academic lessons and various skills that students will need to attend college and to enter the job market.	Bachelor's degree	$62,870
	Kindergarten and Elementary School Teachers	Kindergarten and elementary school teachers instruct young students in basic subjects in order to prepare them for future schooling.	Bachelor's degree	$60,660
	Middle School Teachers	Middle school teachers educate students, typically in sixth through eighth grades.	Bachelor's degree	$60,810
	Musicians and Singers	Musicians and singers play instruments or sing for live audiences and in recording studios.	No formal educational credential	The annual wage is not available.
	Postsecondary Teachers	Postsecondary teachers instruct students in a variety of academic subjects beyond the high school level.	See How to Become One	$80,560
	Producers and Directors	Producers and directors create motion pictures, television shows, live theater, commercials, and other performing arts productions.	Bachelor's degree	$76,400
	**Writers and Authors**	Writers and authors develop written content for various types of media.	Bachelor's degree	$67,120

<- State & Area Data
More Info ->
More Info

Contacts for More Information

About this section

For more information about music degree programs, visit

National Association of Schools of Music

For more information about careers in music, visit

Future of Music Coalition

O*NET

Music Directors and Composers

<- Similar Occupations

SUGGESTED CITATION:

Bureau of Labor Statistics, U.S. Department of Labor, Occupational Outlook Handbook, Music Directors and Composers, at https://www.bls.gov/ooh/entertainment-and-sports/music-directors-and-composers.htm (visited September 17, 2021).

Last Modified Date: Wednesday, September 8, 2021

U.S. BUREAU OF LABOR STATISTICS Office of Occupational Statistics and Employment Projections PSB Suite 2135 2 Massachusetts Avenue NE Washington, DC 20212-0001

Telephone:1-202-691-5700 www.bls.gov/ooh Contact OOH

COEX-9.4

(/?ref=logo)

(/help/getting-started)

Search help articles

Getting music on Spotify

Distributors handle music licensing, distribution, and pay streaming royalties.

Work with a distributor to get music on Spotify.

See our preferred and recommended distributors (https://artists.spotify.com/directory/distribution)

These distributors meet our highest standards for quality metadata and anti-infringement measures.

Note: Most distributors charge a fee or commission. Each service is unique, so do a little research before picking one.

If you're a signed artist, your record label probably already uses a distributor who can get your music on Spotify.

Want to be a preferred and recommended distributor?

Register your interest (https://spotifyresearch.typeform.com/to/mO8t2q)

Was this information helpful?

YES NO

(/?ref=logo)

Related content

Getting access to Spotify for Artists >

(/help/article/getting-access-to-spotify-for-artists)

Pitching music to our playlist editors >

(/help/article/pitching-music-to-playlist-editors)

SoundBetter >

(/help/article/soundbetter)

Can't find what you're looking for?

(/CONTACT)
CONTACT US

HELPFUL LINKS

About (https://www.spotify.com/about-us/contact/)

Press & Media (https://newsroom.spotify.com)

Contact Us (/contact)

CREATOR TOOLS

Anchor (https://app.adjust.com/iya18ah?redirect=https%3A%2F%2Fanchor.fm%2Fapp)

SoundBetter (https://soundbetter.com/)

Soundtrap (https://www.soundtrap.com/?utm_source=spotify_site&utm_medium=footer_menulink&utm_campaign=alwayson_global_soundtrap_destination)

Spotify for Podcasters (https://podcasters.spotify.com/?utm_source=artists.spotify.com)

Spotify Publishing Analytics (https://publishers.spotify.com/?utm_source=artists.spotify.com)

(/?ref=logo)

GET THE APP

(https://itunes.apple.com/us/app/spotify-for-artists/id1222021797)

(https://play.google.com/store/apps/details?id=com.spotify.s4a)

(https://twitter.com/spotifyartists) (https://www.instagram.com/spotifyforartists/)

Legal (https://www.spotify.com/us/legal/spotify-for-artists-terms-and-conditions/)

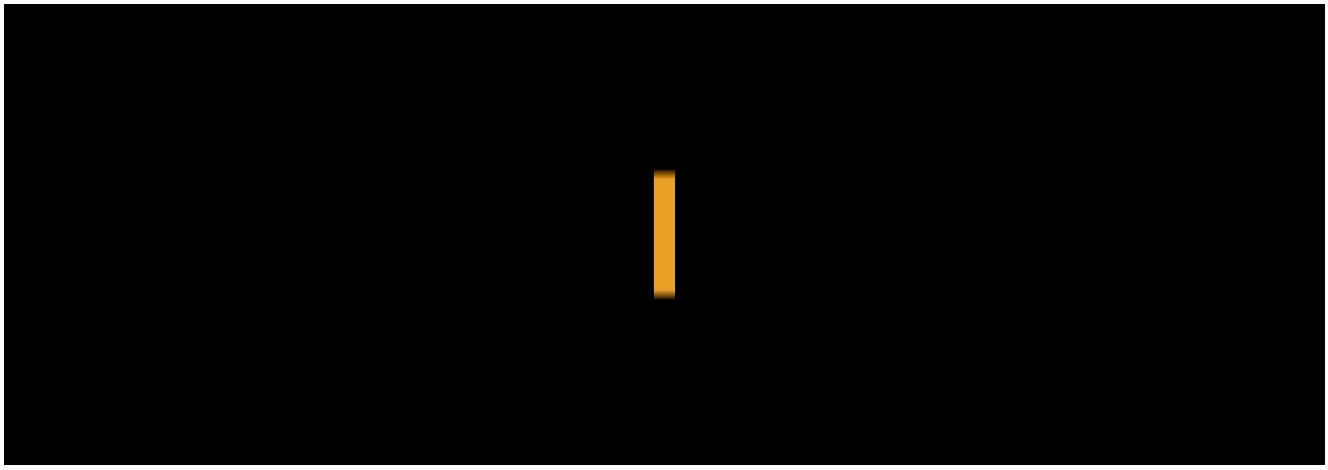
© 2021 Spotify AB

Privacy Policy (https://www.spotify.com/legal/privacy-policy/)

Cookies (https://www.spotify.com/legal/privacy-policy/#s13)

COEX-9.5

COEX-
9.5



We currently only support Songwriter Pages for writers who work with publishing companies. If you are an independent songwriter, please be on the look out for future updates on Noteable, our new global home for songwriters, producers, and publishers.

Check out Noteable

press **Enter** ↵

COEX-9.6

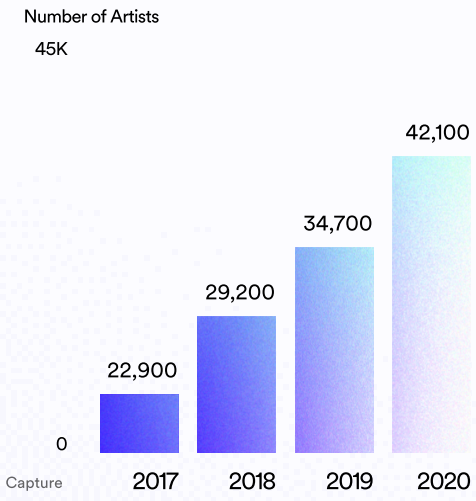
COEX-
9.6

Number of recording artists whose catalogs generated recording and publishing royalties over

$10K+

+80%

2017 - 2020



* Data reflects the number of recording artists whose catalogs for each full calendar year generated $10,000 or more in total royalties to rights holders across recording and publishing on Spotify. The number of artists is rounded to the nearest 100, and the growth percentage is rounded down to the nearest 5%. Data is accurate as of March 18,2021, and is subject to change due to retroactive financial, licensing, and/or metadata adjustments.

COEX-9.7

OVER 60,000 TRACKS ARE NOW UPLOADED TO SPOTIFY EVERY DAY. THAT'S NEARLY ONE PER SECOND.

4K
SHARES

BY TIM INGHAM (HTTPS://WWW.MUSICBUSINESSWORLDWIDE.COM/AUTHOR/TIM/)
(HTTPS://WWW.MUSICBUSINESSWORLDWIDE.COM/REGIONS/NORTH-AMERICA/USA/)
(HTTPS://WWW.MUSICBUSINESSWORLDWIDE.COM/REGIONS/EUROPE/SWEDEN/)
FEBRUARY 24, 2021

Daniel Ek speaking at the Stream On online Spotify event, February 22, 2021

The MBW Review is where we aim our microscope towards some of the music biz's biggest recent goings-on. This time, we juggle some very interesting numbers revealed by Spotify (https://www.musicbusinessworldwide.com/companies/spotify/) at its 'Stream On' event earlier this week. The MBW Review is supported by Instrumental. (https://www.weareinstrumental.com/)

The mind-boggling amount of music being uploaded to Spotify continues to get even more mind-boggling.

As part of Spotify's 'Stream On' event (https://www.youtube.com/watch?v=Vvo-2MrSgFE) on Monday (February 22), the company confirmed that more than 60,000 new tracks are now being ingested by its platform every single day.

The figure, announced by Spotify's co-Head of Music, Jeremy Erlich, means that across the course of this year, approximately 22 million tracks will be added to Spotify's catalog.

Meanwhile, at 60,000 tracks per day, Spotify is seeing a new track uploaded to its platform every 1.4 seconds.

There are a few other interesting ways to slice this information in context of today's music business.

Spotify confirmed in November last year that its platform now played host to around 70 million tracks (https://www.rollingstone.com/pro/features/spotify-now-hosts-70-million-songs-but-it-cant-keep-that-up-forever-1094234/).

Therefore it's reasonable to assume that, by the end of 2021, SPOT will be home to over 90 million tracks. And that in the early part of next year, it will surpass a catalog of 100 million for the first time.

And you can expect that 60,000-plus daily number to grow even higher in future.

In April 2019, Spotify founder Daniel Ek (https://www.musicbusinessworldwide.com/people/daniel-ek/) confirmed that his service was seeing "nearly 40,000" (https://www.musicbusinessworldwide.com/nearly-40000-tracks-are-now-being-added-to-spotify-every-single-day/) new tracks uploaded daily. In less than two years, that figure has increased by 50%.

Spotify certainly seems to be forecasting that its daily upload number will continue going haywire in the years ahead.

During his opening monologue at the 'Stream On' event, Daniel Ek noted that three years ago, in 2018, Spotify had 3 million creators on its platform.

In 2019, he said, this number climbed to 5 million. And in 2020, it exploded: according to Ek, by the end of last year there were 8 million creators with recordings on Spotify.

> **“I BELIEVE THAT BY 2025, WE COULD HAVE AS MANY AS 50 MILLION CREATORS ON OUR PLATFORM, WHOSE ART IS ENJOYED BY A BILLION USERS AROUND THE WORLD.”**
>
> **DANIEL EK, SPOTIFY**

“Creators” here is a euphemism for music artists plus podcasters. But considering Spotify had 2.2 million podcasts (https://investors.spotify.com/financials/default.aspx) on its service at the end of 2020 – and those podcasts will obviously be made by a smaller number of podcasters – it seems inevitable that Spotify has at least 7 million recording artists on its platform today.

Said Ek on Monday: “I believe that by 2025, we could have as many as 50 million creators on our platform, whose art is enjoyed by a billion users around the world. And that’s not a prediction or a goal: it’s really both a challenge, and a great opportunity.”

If the amount of music being uploaded to Spotify grows at the same rate as the number of creators on Spotify – and Daniel Ek is right in his forecast – then by 2025, some 375,000 new tracks will be being flung up on Spotify every day.

That’s approximately 137 million new tracks every year.

Fyi: There are around 38 million minutes in the average human life – including sleep – according to United Nations estimates. (https://ourworldindata.org/life-expectancy)

Now we come to a crucial question: How many of the 8 million creators on Spotify today are actually making any proper money from the service?

This question was answered by Dawn Ostroff, Spotify’s Chief Content Officer and Advertising Business Officer, at the ‘Stream On’ event.

Furthering the idea that the pool of artists earning good money from Spotify keeps widening, Ostroff revealed that 90% of streams on Spotify today are shared between 57,000 artists – a number “that has quadrupled in just six years”.

Considering that Daniel Ek confirmed on Monday that Spotify paid out over $5 billion to music rights-holders in 2020, this seems to be very good news for the average artist.

However, further numbers from Ostroff were less reassuring for your par-level musician.

> **“OVER THE LAST FOUR YEARS, THE NUMBER OF RECORDING ARTISTS WHOSE CATALOGS GENERATED MORE THAN $1 MILLION A YEAR [GREW TO] MORE THAN 800… [THE] NUMBER GENERATING MORE THAN $100,000 A YEAR? [OVER] 7,500 ARTISTS.”**
>
> **DAWN OSTROFF, SPOTIFY**

“Over the last four years, the number of recording artists whose catalogs generated more than $1 million a year [from Spotify] across recording and publishing is up over 82% to more than 800 artists,” confirmed Ostroff, adding: “[The] number generating more than $100,000 a year? That’s up 79% to more than 7,500 artists.”

To rephrase the vital bit there: Around 7,500 artists are now generating over $100,000 per annum from Spotify.

It doesn’t take a mathematician to point out that 7,500 is both a significant number of artists… and a *long* way off 8 million.

In fact, these numbers mean an individual artist’s chance of generating over $100,000 on Spotify this year (i.e. as one of the 7,500 people within those 8 million creators) is… **0.094%**.

Breaking into the hallowed “1%” is a struggle that artists have long accepted as part and parcel of becoming a star.

But breaking into the 10% *of* the 1%?

In a world of 60,000 daily track uploads, those are the crazily steep odds facing any artist with dreams of making bank on Spotify in 2021.

The MBW Review is supported by Instrumental, which powers online scouting for A&R and talent teams within the music industry. Their leading scouting platform applies AI processes to Spotify and social data to unearth the fastest growing artists and tracks each day. Get in touch with the Instrumental team to find out how they can help power your scouting efforts.
(https://www.weareinstrumental.com/)

Instrumental logo
(https://www.weareinstrumental.c

ANALYSIS (/CATEGORY/ANALYSIS/) UNITED STATES (HTTPS://WWW.MUSICBUSINESSWORLDWIDE.COM/REGIONS/NORTH-AMERICA/USA//)

SWEDEN (HTTPS://WWW.MUSICBUSINESSWORLDWIDE.COM/REGIONS/EUROPE/SWEDEN//) MBW REVIEW (/TAG/MBW-REVIEW/)

RELATED POSTS

(https://www.musicbusinessworldwide.com/goldman-sachs-says-universal-is-worth-over-50bn-as-it-forecasts-3bn-rise-in-music-industry-streaming-revenues-in-2021/)

(https://www.musicbusinessworldwide.com/the-us-recorded-music-industry-grew-by-over-1bn-in-2020-but-faces-big-challenges-over-streamings-pricing-and-its-growth/)

(https://www.musicbusinessworldwide.com/how-did-warner-music-group-perform-in-the-pandemic-year-of-2020/)

(https://www.musicbusinessworldwide.com/audio-streaming-volume-grew-by-its-biggest-ever-amount-in-the-uk-in-2020-as-brits-turned-to-music-during-pandemic-lockdown/)

LATEST MUSIC BUSINESS JOBS

(/jobs)

(https://www.musicbusinessworldwide.com/jobs/wma-head-of-marketing-strategy-us-us/)

NASHVILLE (/JOBS/LOCATION/NASHV
NEW YORK (/JOBS/LOCATION/NEW-

YORK/) | WMA (/JOBS/COMPANY/WMA/) WMA – HEAD OF MARKETING STRATEGY, US (US) (HTTPS://WWW.MUSICBUS HEAD-OF-MARKETING-STRATEGY-US-US/)

(https://www.musicbusinessworldwide.com/jobs/wma-senior-digital-channel-manager-us-2/)

LOS ANGELES (/JOBS/LOCATION/LOS ANGELES/) | WMA (/JOBS/COMPANY/WM WMA – SENIOR DIGITAL CHANNEL MANAGER (US) (HTTPS://WWW.MUSICE SENIOR-DIGITAL-CHANNEL-MANAGER-US-2/)

(https://www.musicbusinessworldwide.com/jobs/aeg-presents-graphic-designer-uk/)

LONDON (/JOBS/LOCATION/LONDON/) | AEG PRESENTS (/JOBS/COMPANY/AEG-PRESENTS/) AEG PRESENTS – GRAPHIC DESIGNER (UK) (HTTPS://WWW.MUSICBUSINESS PRESENTS-GRAPHIC-DESIGNER-UK/)

(https://www.musicbusinessworldwide.com/jobs/demon-music-group-digital-marketing-executive-uk/)

LONDON (/JOBS/LOCA | DEMON MUSIC GROUP (/JOBS/COMI MUSIC-GROUP/) DEMON MUSIC GROUP – DIGITAL MARKETING EXECUTIVE (UK) (HTTPS://WW MUSIC-GROUP-DIGITAL-MARKETING-EXECUTIVE-UK/)

(https://www.musicbusinessworldwide.com/jobs/trinity-college-london-director-of-business-affairs-uk-2/)

LONDON (/JOBS/LC | TRINITY COLLEGE LONDON (/JOBS/C COLLEGE-LONDON/)

COEX-9.7

TRINITY COLLEGE LONDON – DIRECTOR OF BUSINESS AFFAIRS (UK) (HTTPS://COLLEGE-LONDON-DIRECTOR-OF-BUSINESS-AFFAIRS-UK-2/)

The best of MBW, plus the most important music biz stories on the web. Delivered for FREE, direct to your inbox each day.

ENTER YOUR EMAIL ADDRESS...

SIGN UP

POPULAR ARTICLES

(https://www.musicbusinessworldwide.com/kobalt-is-selling-a-music-catalog-for-1-billion-and-kkr-is-in-prime-position-to-buy-it/)

COEX-
9.7

HERE. COME. THE. GIANTS.
(HTTPS://WWW.MUSICBUSINESSWORLDWIDE.COM/
COME-THE-GIANTS/)

(https://www.musicbusinessworldwide.com/here-come-the-giants/)

(https://www.musicbusinessworldwide.com/warner-music-poaches-spotifys-us-head-of-catalog-as-catalogs-dominance-of-streaming-keeps-growing2/)

(https://www.musicbusinessworldwide.com/primary-wave-buys-stake-in-bing-crosby-estate-for-more-than-50m-report/)

COEX-
9.7

(https://www.musicbusinessworldwide.com/blockchain-platform-opulous-teams-up-with-lil-pump-and-edm-star-kshmr-to-let-fans-invest-in-their-music/)

LATEST MBW PODCASTS

(/podcast)

(https://www.musicbusinessworldwide.com/podcast/what-will-be-musics-next-big-rights-buyout-and-what-can-labels-learn-from-scarlett-johansson/)

(https://www.musicbusinessworldwide.com/podcast/is-timbaland-about-to-transform-the-music-production-business-again/)

(https://www.musicbusinessworldwide.com/podcast/troy-carter-the-music-industry-has-to-change-the-business-model-its-as-simple-as-that/)

COEX-
9.7

(https://www.musicbusinessworldwide.com/podcast/spice-girls-kylie-and-a-near-death-experience-biff-stannard-talks-songwriting-and-battling-demons/)

(https://www.musicbusinessworldwide.com/podcast/larry-mestel-i-was-shocked-the-majors-even-let-me-in-the-business-back-in-2006/)

(https://www.musicbusinessworldwide.com/)

© 2021 MUSIC BUSINESS WORLDWIDE
27 OLD GLOUCESTER STREET, LONDON, WC1N 3AX

WEBSITE BY 44 BYTES (HTTPS://WWW.44BYTES.NET)

COEX-9.8

GOOGLE CLOUD

Spotify chooses Google Cloud Platform to power data infrastructure

Guillaume Leygues
Lead Sales Engineer, Google Cloud Platform

February 23, 2016

It's not every day you move a 75 million+ user company from a home-grown infrastructure to the cloud. But if you use Spotify, more and more of your musical experience will be delivered by Google Cloud Platform over the coming weeks and months — we're partnering on an ambitious project to move Spotify's backend into GCP.

Spotify aims to make music special for everyone. Today, the company hosts more than 2 billion playlists and gives consumers access to more than 30 million songs. Users can search for music across any device by artist, album, genre, playlist or record label, while features like Discover Weekly suggest personalized playlists for millions of people around the world.

While Spotify had engineers running its core infrastructure and buying or leasing data-center space, PC hardware and networking gear to provide a seamless experience for users — time and again it asked whether the tradeoff of resources that could otherwise focus on innovative features and software, was worth it.

Recently Spotify decided it didn't want to be in the data center business, and chose Cloud Platform over the public cloud competition after careful review and testing. The company split their migration to Cloud Platform into two streams: a services track and a data track. Spotify runs their products on a multitude of tiny microservices, several of which are now being moved from on premise data centers into Google's cloud using our Cloud Storage, Compute Engine and other products.

With Compute Engine, teams can rely on consistent performance from ultra high IOPS SSD and local SSD storage capabilities. And with autoscaling, they can build resilient and cost-efficient applications that use just the right amount of resources necessary at any given

time. For storage, Spotify is now implementing Google Cloud Datastore and Google Cloud Bigtable. This rich fabric of storage services lets engineers work on complex back end logic, instead of focusing on how to store the data and maintain databases. Spotify is also deploying Google's Cloud Networking services, such as Direct Peering, Cloud VPN and Cloud Router, to transfer petabytes of data. This results in a fast, reliable and secure experience for users around the globe.

On the data side of things, the company is adopting an entirely new technology stack. This includes moving from Hadoop, MapReduce, Hive and a series of home-grown dashboarding tools, to adopting the latest in data processing tools, including Google Cloud Pub/Sub, Google Cloud Dataflow, Google BigQuery, and Google Cloud Dataproc.

With BigQuery and Cloud Dataproc, data teams can run complex queries and get answers in a minute or two, rather than hours. This lets Spotify perform more frequent in-depth, interactive analysis, guiding product development, feature testing and more intelligent user-facing features. To gather and forward all events to its ecosystem, Spotify is using Cloud Pub/Sub, Google's global service for messaging and streaming data. This gives teams the ability to process hundreds of thousands of messages per second, in a reliable no-ops manner. And to power its ETL workloads, Spotify is deploying Cloud Dataflow, Google's data processing service. This lets the company rely on a single cloud-based managed service for both batch and stream processing.

What makes us most excited to work with Spotify is their company-wide focus on forward-looking user experiences. Now that they've begun using Google Cloud Platform, we can't wait to see what Spotify builds next.

Join us for the GCP NEXT 2016 opening keynote, where we'll feature a talk from Nicholas Harteau, VP of Engineering and Infrastructure at Spotify. You can also attend Spotify-led technical sessions where you can learn more about how they're deploying Google Cloud BigQuery and Dataflow.

POSTED IN: GOOGLE CLOUD—CUSTOMERS

Follow Us

Google

Privacy Terms About Google Google Cloud Products Language Help

COEX-9.9

ENTERPRISE

Spotify will spend nearly $450 million on Google's cloud over 3 years

PUBLISHED TUE, MAR 20 2018•4:46 PM EDT UPDATED TUE, MAR 20 2018•4:46 PM EDT

Jordan Novet
@JORDANNOVET

SHARE

KEY POINTS

Spotify said in a filing that it will spend at least 365 million euros ($447 million) on Google's Cloud Platform in the first three years of a new service agreement.

Snap said last year that it had committed to paying Google $2 billion for cloud services over five years.

Spotify is committed to spending close to half a billion dollars on Google's public cloud services over the next three years, the music streaming service disclosed on Tuesday.

According to its updated share sale prospectus, Spotify signed a deal earlier this year to spend a minimum of approximately 365 million euros ($447 million) on the Google Cloud Platform during the first three years of the service.

Last month, when it initially filed to go public, Spotify said it was moving more data to Google's cloud, but the company didn't say how much it was paying for those resources.

Google's cloud business has grown in the past two years under the leadership of CEO Diane Greene and now brings in more than $1 billion per quarter. Amazon Web Services still leads, generating more than $5 billion in revenue in the fourth quarter, and Microsoft pulled in more than $5 billion in revenue, though that category includes the Azure public cloud as well as services like Dynamics 365 and Office 365 business subscriptions.

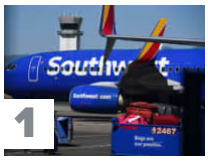
The Spotify relationship is big for Google Cloud, but Snap is bigger.

Last year Snap said it would spend $2 billion over five years on Google public cloud services, or about $400 million per year. In other words, Snap is contributing as much as 10 percent of the $1 billion or more that Google is getting on a quarterly basis.

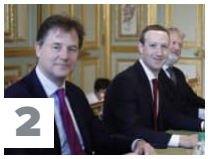
Using the current exchange rate, Spotify will be paying Google around $149 million per year, or $37.25 million per quarter. That works out to about 3.7 percent of Google's quarterly cloud revenue figure.

Before adopting Google cloud, Spotify was a prominent AWS customer. A Spotify case study is still listed on the AWS website.

TRENDING NOW


1

Southwest shares slide after mass cancellations, carrier weighs more schedule cuts


2

Facebook will add new safety features for teens following bombshell whistleblower leak

3

This 42-year-old saved $660,000 and moved to Mexico after losing her 6-figure job

4

U.S. moves closer to clearing Moderna and J&J Covid booster shots this week

5

Southwest Airlines cancels 1,800 flights, blaming weather and staffing

COEX-
9.9

Contact

News Tips

Got a confidential news tip? We want to hear from you.

GET IN TOUCH

CNBC Newsletters

Sign up for free newsletters and get more CNBC delivered to your inbox

SIGN UP NOW

Get this delivered to your inbox, and more info about our products and services.

Privacy Policy

Do Not Sell My Personal Information

CA Notice

Terms of Service

© 2021 CNBC LLC. All Rights Reserved. A Division of NBCUniversal

Data is a real-time snapshot *Data is delayed at least 15 minutes. Global Business and Financial News, Stock Quotes, and Market Data and Analysis.

Market Data Terms of Use and Disclaimers

Data also provided by

COEX-9.10

COEX-
9.10

Switching clouds: What Spotify learned when it swapped AWS for Google's cloud

by **Nick Heath** in **Cloud** on October 21, 2016, 9:40 AM PST

Spotify reveals how it fared when replacing Amazon's cloud storage with Google's and shares the gotchas to watch out for.

Image: LawrenLu/Getty Images/iStockphoto

Like moving house, packing up your data and shifting it from one cloud to another can be a stressful experience.

But not as fraught as you might think, says Jyrki Pulliainen, who as a software engineer at music streaming service Spotify has just overseen the move of about 1.5 billion files from Amazon Web Services (AWS) to Google Cloud Storage.

While Spotify stumbled over a few gotchas when shifting the 3PB of data, the process was completed in the past couple of weeks and without major setbacks.

Here's what Spotify learned from moving from AWS Simple Storage Service (S3) to Google Cloud Storage, as part of its wider migration to Google Cloud Platform (https://cloudplatform.googleblog.com/2016/02/Spotify-chooses-Google-Cloud-Platform-to-power-data-infrastructure.html).

1. Check if your infrastructure is tightly coupled to your old cloud

Spotify baked the names of the AWS S3 storage buckets into the names of the keys for its data caches, in order to help with A/B testing.

"It turns out this is a bad idea when you migrate the bucket," said Pulliainen, who added that Spotify had to pause the migration while it updated its cache keys.

2. Watch out for unexpected latency spikes

As part of the move, Spotify shifted data from an AWS datacenter in Ireland to a facility in Google's US Central region, due to most of Spotify's customers now residing in North America.

Following the switch, Spotify was surprised to see higher than expected latency when serving data to some US customers.

"The lesson learned here is that our private capacity points had IP addresses registered to Stockholm, so we were ping-ponging to Europe and ping-ponging back to US Central to fetch the files," he said, speaking at the Google Cloud Platform Next conference in London.

"So if you do these kind of moves, remember to check where your IP addresses are registered and change them accordingly."

3. Check how well your new cloud provider integrates with your CDN

Spotify uses three major content delivery network (CDN) providers, Fastly, Akamai and Verizon, to cache music locally for users across the globe.

Data Center Must-Reads

6 modern data stack trends to look for in 2021 (https://www.techrepublic.com/article/6-modern-data-stack-trends-to-look-for-in-2021/)

Microsoft: Why Windows Server will continue to be delivered on-premises (https://www.techrepublic.com/article/microsoft-why-windows-server-will-continue-to-be-delivered-on-premises/)

Top 5 programming languages network admins should learn (https://www.techrepublic.com/article/top-5-programming-languages-for-network-admins-to-learn/)

Kubernetes: Ultimate IT pro's guide (TechRepublic Premium) (https://www.techrepublic.com/resource-library/downloads/kubernetes-ultimate-it-pro-s-guide/)

While Spotify's CDN partners offer Google Cloud Storage (GCS) support 'out of the box', there were some roadblocks.

A negative for Spotify is that its CDN providers "don't really support" OAuth, the token-based authentication system that allows third-party services to access online accounts without knowing the user's password.

"We would have liked to have had OAuth support. We had to create artificial Google accounts for our CDN providers. It's a hassle for us, for our IT department, for our security and we get less fine-grained access control."

4. Check what you'll lose during the move

Each cloud provider has strengths and weaknesses, so you should expect some gaps. Check which features from your existing cloud provider are missing or inferior to your previous choice.

"Now that we've done the move, we are generally really happy but we have some wishes for the future.

"We would love to see cross-continental replication, like the fact we now run in a US Central regional bucket, that causes a slight latency for our European users.

"We ideally would like to have another bucket in Asia. At the moment, the GCS does not allow cross-continental replication.

"We're also seeing slightly lower cold read latencies than with S3, the good news is that Google has improvements upcoming and we've worked with them to shear off 30ms.

Pulliainen added that these latencies should be invisible to users, due to Spotify's technical architecture.

Aspects of his specific complaints may have been addressed by Google with the introduction of the new Coldline and Multi-regional storage tiers this week (https://www.techrepublic.com/article/google-cuts-cloud-storage-pricing-but-will-it-be-enough-for-the-enterprise/), but his point of looking for gaps still stands.

5. Check how simple the transfer process will be

One of the most obvious things for firms to check up front are which tools are available to copy data between their old and new cloud provider, and how good these tools are.

Spotify moved some 1.5bn files -- covering music, cover images and metadata -- totalling about 3PB of data between S3 and Google Cloud Storage.

While moving this much data understandably took a couple of weeks, the actual process was straightforward, said Pulliainen, who described moving the 1.5bn files as nothing more than a matter of "clicking around a UI for a moment" and called the overall experience "super simple".

Out of the 1.5bn files, 144 had transfer failures, but Pulliainen said it took Google less than one day to track down those that were missing.

Cloud and Everything as a Service Newsletter

This is your go-to resource for XaaS, AWS, Microsoft Azure, Google Cloud Platform, cloud engineering jobs, and cloud security news and tips. Delivered Mondays

Sign up today ()

Also see

- Google Cloud Platform: The smart person's guide (https://www.techrepublic.com/article/google-cloud-platform-the-smart-persons-guide/) (TechRepublic)
- Google cuts cloud storage pricing, but will it be enough for the enterprise? (https://www.techrepublic.com/article/google-cuts-cloud-storage-pricing-but-will-it-be-enough-for-the-enterprise/) (TechRepublic)
- Google refreshes its cloud storage, slashes prices to a new low (http://www.zdnet.com/article/google-refreshes-its-cloud-storage-slashes-prices-to-a-new-low/) (ZDNet)

COEX-
9.10

- Google admits original enterprise cloud strategy was wrong, why it's gone in a different direction (https://www.techrepublic.com/article/google-admits-original-enterprise-cloud-strategy-was-wrong-why-its-gone-in-a-different/) (TechRepublic)
- Google Cloud Platform breaks through with big enterprises, signs up Disney and others (http://www.zdnet.com/article/google-cloud-platform-breaks-through-with-big-enterprises-signs-up-disney-and-others/) (ZDNet)
- OneDrive, Dropbox, Google Drive and Box: Which cloud storage service is right for you? (https://www.cnet.com/how-to/onedrive-dropbox-google-drive-and-box-which-cloud-storage-service-is-right-for-you/) (CNET)

EDITOR'S PICKS

TechRepublic Premium: The best IT policies, templates, and tools, for today and tomorrow.

Windows 11: Do these 11 things immediately

Best hidden iOS 15 features to start using now

COEX-
9.10

Python ends C and Java's 20-year reign atop the TIOBE index

Open source developers are unique: Tips for working with and managing community-centric dev teams

Why I won't be buying Apple's new iPad mini

By Nick Heath

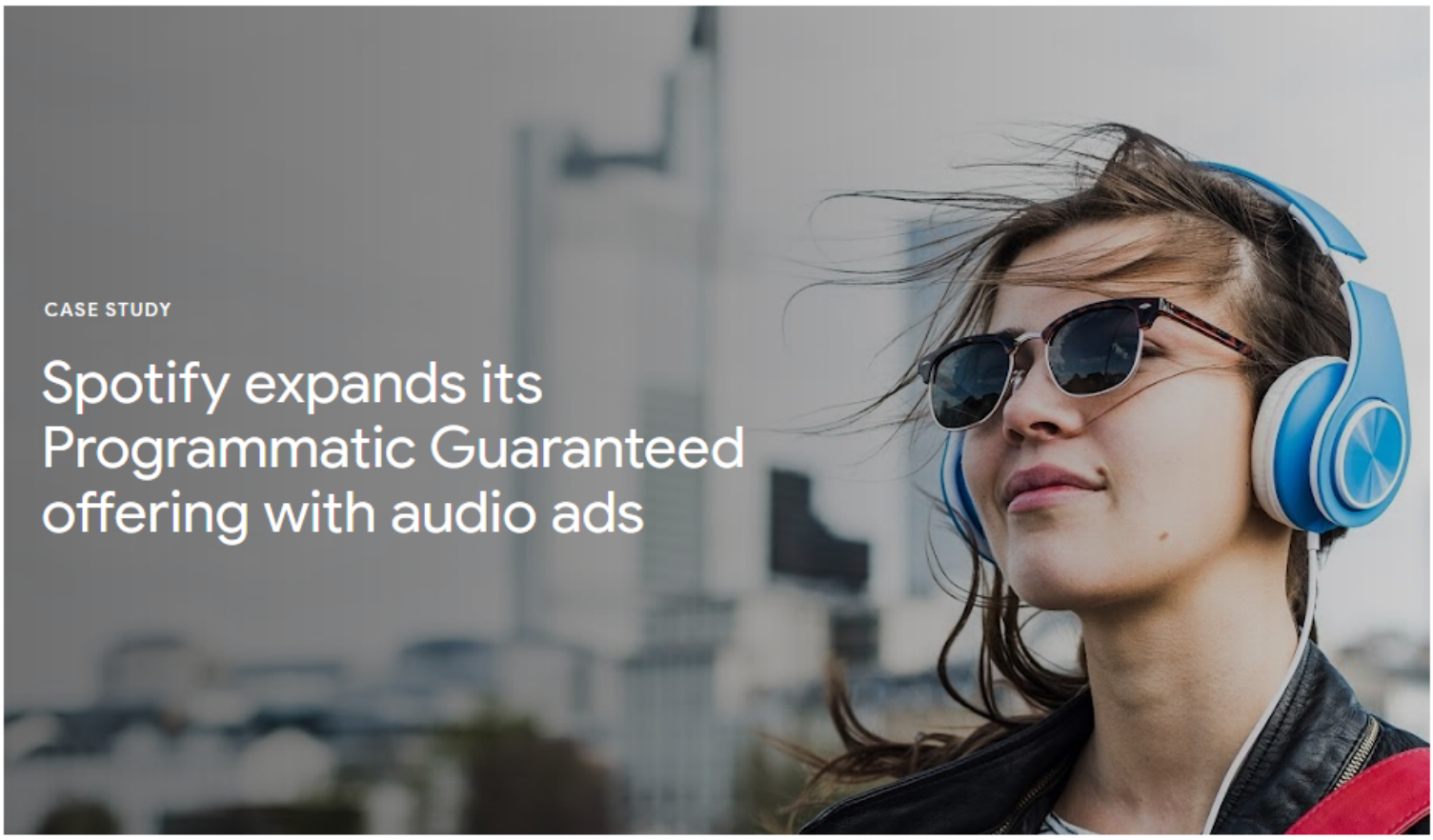
Nick Heath is a computer science student and was formerly a journalist at TechRepublic and ZDNet.

CLOUD | GOOGLE | ENTERPRISE SOFTWARE | SECURITY | NETWORKING | DATA CENTERS | MICROSOFT

CLOUD ON ZDNET

SHOW COMMENTS

COEX-9.11



CASE STUDY

Spotify expands its Programmatic Guaranteed offering with audio ads

Tags Ad Formats Core Ad Serving

The Goals

- Grow programmatic revenue across premium inventory
- Provide buyers with streamlined access to guaranteed inventory

The Approach

- Hire programmatic experts and cross-train staff on the value of programmatic
- Use Programmatic Guaranteed to deliver access to premium formats like audio and video

The Results

- 135% increase in the number of Programmatic Guaranteed transactions

One of the world's most popular audio streaming companies, Spotify has run many successful ad campaigns. But one campaign stands out for Greta Lawn, Spotify's Head of Global Automation Sales.

She calls it one of her favorites.

The client was a beauty brand with an audio message to deliver at scale. The solution was to use Spotify's Audio offering through Programmatic Guaranteed, the Google ad-automation solution that lets advertisers execute direct buys with publishers with tagless trafficking, consolidated reporting and billing, and advanced audience capabilities that help narrow who your ad is shown to — all without manual processes like exchanging tags, troubleshooting discrepancies, and handling multiple invoices.

Streamlined operations leads to revenue growth

The beauty brand isn't alone. Ever since Spotify integrated Programmatic Guaranteed into its advertising strategy in 2016, the program has benefited the company and its advertisers.

For advertisers, Programmatic Guaranteed means increased flexibility and inventory. And for Spotify, parity between reservations and programmatic buying has meant a streamlined workflow and dramatic revenue growth. Now a Programmatic Guaranteed-first publisher, Spotify saw a 135% increase in the number of Programmatic Guaranteed transactions from 2018 to 2019. "Programmatic continues to be a fast-growing lever for Spotify," says Lawn, "and Programmatic Guaranteed deals are a big part of it."

An innovative approach to audio buying

For years Spotify has been using Programmatic Guaranteed Deals for display, video, and premium formats like takeovers and rewarded video ads called Sponsored Sessions. More recently, they were the first partner to work with Google Ad Manager on the development and testing of Programmatic Guaranteed for Audio, which offers advertisers programmatic access to custom audio formats, such as cost-per-day sponsorships and custom creatives. "Working with Google to develop Programmatic Guaranteed for Audio allowed us to ensure that the guaranteed audio buying experience is as smooth and efficient as buying formats like video or display," says Lawn. They were also one of the first non-gaming companies to launch a rewarded ad format through Programmatic Guaranteed, Sponsored Sessions, which lets advertisers invite consumers to watch one video in exchange for 30 minutes of ad-free listening.

> "At Spotify, we are always looking to expand the boundaries of audio advertising with unique offerings and enhanced formats."
>
> **Greta Lawn**, Head of Global Automation Sales, Spotify

To add additional performance to their high-impact creative, Spotify is also investing heavily in their first-party data strategies. Using Ad Manager's Audience Solutions, Spotify packages and activates interest- and demographic-based first-party data segments built from the streaming habits and music preferences they see on their apps. By building trust in their product amongst users and offering a personalized logged-in experience, Spotify is able to offer advertiser clients the ability to reach a wide-

array of audiences whose interests are aligned with their products.

Investing for the future

Spotify has made significant investments to make its direct ad products available through Programmatic Guaranteed. The company's entire sales team supports both direct reservations and programmatic buying, and team members are trained to identify clients who are more likely to benefit from Programmatic Guaranteed campaigns. And designated programmatic specialists focus exclusively on Spotify's Programmatic Guaranteed and Private Marketplace offerings to ensure that teams have the resources they need to provide ideal solutions for each client.

"It's always been our top priority to give our clients the flexibility to transact in the way that makes the most sense for their goals and objectives," says Lawn. "Programmatic Guaranteed lets our clients buy direct reservations with the simplicity and ease of programmatic."

Share article

You might also like:

CASE STUDY

How El Clasificado brought hundreds of Hispanic-owned micro-businesses online to connect with their audience of 20M+ readers

Read more

CASE STUDY

Creating free tools for everyone

Read more

CASE STUDY

Cory Lee is using his travel blog to inspire other wheelchair users to explore the world

Read more

See all resources

COEX-
9.11

Follow us

About Google Ad Manager

Overview

Capabilities

Partner Solutions

Learning & support

Support

Blog

Skillshop

Developers & partners

Google developers site

Ad Manager for developers

Certified Publishing Partners

Related products

Google Marketing Platform

Google Ads

Google AdSense

Google AdMob

Google Cloud

More from Google

Think with Google

Google Revenue Solutions

Business Solutions

Google Workspace

Google

Privacy Terms About Google Google Products

Help

COEX-9.12

COEX-
9.12

Spotify Loses $10 Million In Revenue From Switching Off Google Sales Manager

adexchanger.com/digital-audio-radio/spotify-loses-10-million-in-revenue-from-switching-off-google-ad-manager/

October 28, 2019

Switching
Friction

This story previously said Spotify switched off of Google's ad stack. A Spotify spokesperson said the company misspoke and that it has only switched off of Google's order management system, Google Sales Manager.

Friction from migrating off of Google Sales Manager in July caused Spotify to take a roughly $10 million revenue hit in Q3, the company said during its earnings call on Monday.

Despite 20% year-over-year growth to $189 million, Spotify's ad-supported revenue came in below expectations, said Chief Financial Officer Barry McCarthy, who will step down in 2020, on the call. About 80% of that miss was due to "self-inflicted implementation and integration issues we experienced with the rollout of a new order management software," the company said in a press release.

"Underperformance in the quarter was related to our dropping the ball on implementing a new operating system," McCarthy said. "We moved off of the Google ad stack. I own that miss, it's embarrassing, but it's not related to the strength of the business."

Spotify generally sells out 99.5% of its inventory, but the digital audio platform is currently delivering 97.5% of its inventory due to the switch off of Google's order management system, Google Sales Manager, which led to a combination of lost orders and under-delivery on other

orders. It expects to return to normal sales numbers by Q4.

The migration hit programmatic sales particularly hard, stalling programmatic growth from 65% year over year in Q2 to 48% year over year in Q3. The hit was mostly related to a slowdown in video private marketplace revenue.

“The core thing I would want you to know is there was demand for that product, but we were simply unable to run it on the site,” McCarthy said. “The ads business today is performing strongly.”

Overall, revenues at Spotify were up 28% year over year in Q3 to $1.9 billion, with premium subscription revenues growing 29% year over year to $1.7 billion. Monthly active users (MAUs) were up 30% year over year to 248 million. Average revenue per user was down 1% to $5.18 due to changes in the product and geographic mix of the business.

Podcast boom

It’s still early days, but Spotify is seeing positive trends from its major push into podcasting earlier this year.

Podcast hours streamed on the platform were up 39% year over year, with 14% of Spotify’s MAUs listening to podcasts on the platform. Spotify now has 500,000 podcasts on its platform as well as 22 original and exclusive titles from both Gimlet and Parcast.

Podcast engagement is also leading to increased conversions from ad-supported to paid listeners, although it’s too early for Spotify to attribute causality rather than just a correlation.

With positive momentum, however, Spotify will continue investing in podcasting aggressively, leveraging data on music listening habits to create better recommendations for users.

“We’re still experimenting with formats and it’s still early days,” said Spotify CEO Daniel Ek. “You should expect us to innovate on all forms of merchandizing and discovery tools we have so we can drive that number up significantly.”

COEX-9.13

The New York Times https://www.nytimes.com/2019/03/13/business/spotify-apple-complaint.html

Spotify Accuses Apple of Anticompetitive Practices in Europe

By Adam Satariano and Jack Nicas

March 13, 2019

LONDON — Apple's powerful role as gatekeeper of the App Store has long frustrated the makers of apps who must abide by its rules or risk losing access to hundreds of millions of customers who own Apple devices.

Now one of Apple's biggest rivals, the music streaming service Spotify, says Apple is abusing its position and violating European antitrust laws.

In an aggressive attempt to undercut Apple's power, Spotify said on Wednesday that it had filed a complaint with European regulators, accusing Apple of using its App Store to squash companies that compete with its services, including Apple Music.

Spotify's complaint comes at perilous moment for the world's biggest tech companies. Scrutiny over Silicon Valley's power has been increasing in recent years, and has already become a topic among Democratic presidential hopefuls.

One of them, Senator Elizabeth Warren of Massachusetts, last week proposed breaking up the tech giants as a remedy to their unfair advantages. One of her ideas was to separate the App Store from Apple.

"Spotify's complaint is just the latest example of what can happen when these enormous companies abuse their power to undermine competition," Ms. Warren said in a statement Wednesday. "We need a level playing field, and that starts by breaking up giant tech companies who both own a marketplace and operate in that same marketplace."

On Wednesday, a British government report also called for tougher antitrust laws for the industry.

Apple's role as a make-or-break arbiter has long frustrated app makers by imposing rules and charging a fee of up to 30 percent on anything sold through its App Store.

Spotify, which has headquarters in Luxembourg and Sweden, said it had told the European Commission, an aggressive regulator of the tech industry, that the policies were not just a costly nuisance but a "tax" that violated competition laws and merited an investigation.

The policies have been particularly vexing for companies, like Spotify, that compete with Apple. Spotify and Apple Music are the world's largest music streaming services.

"They continue to give themselves an unfair advantage at every turn," Daniel Ek, Spotify's chief executive, said in a message posted on the company's website. He said Apple was acting as both "player and referee to deliberately disadvantage other app developers."

Apple did not respond to a request for comment. The company has said the fees are reasonable given that it must maintain the App Store and is providing access to millions of potential customers who own Apple devices.

Apple's introduction of the App Store in 2008 revolutionized the mobile-phone industry, creating a new marketplace for consumers to download games, productivity tools and social networking services. There are now more than two million apps available on the App Store.

Companies like Spotify have thrived on Apple's platform, which typically generates more money for app developers than Google's Play Store.

Business & Economy: Latest Updates ›
Updated 3 hours ago

- Here's what's happening in the markets today.
- Chevron announces 'aspiration' to reach net zero emissions from its operations.
- Evergrande's creditors consider their options as more payment deadlines loom.

Spotify's overall sales last year rose 29 percent to 5.3 billion euros, or about $6 billion, but the company is not profitable and is under pressure from investors to improve its margins. The company paid about 74 percent of its revenue to cover music rights and related costs.

Spotify has been a formidable competitor to Apple in attracting customers for music streaming. Spotify said that it ended 2018 with 207 million active users around the world, including 96 million who were signed up for a paid subscription that did not include ads. In January, Apple said that its Apple Music service had 50 million paying users.

Apple's control over the App Store has been an increasing source of tension as the company has focused more on online services that compete with many of the apps sold on its platform. As iPhone sales have leveled off, Apple has relied more on sales of software and services. The largest driver of that sort of revenue is the App Store.

Spotify said Apple was continually changing its policies to harm competitors.

"Apps should be able to compete fairly on the merits, and not based on who owns the App Store," Mr. Ek said. "We should all be subject to the same fair set of rules and restrictions — including Apple Music."

A search for "music" on the App Store on Wednesday showed how Apple can give itself an advantage. The top result was an ad for Apple Music, followed by eight more results for Apple apps. Spotify was listed 11th.

Companies are finding ways to reduce the fees they pay to Apple. In 2016, Spotify started sending customers to an outside website to make a payment rather than processing charges within its app. Netflix and Amazon have made similar moves.

As a result, Spotify generally does not share revenue with Apple for customers who signed up after 2016, but pays 15 percent for customers who signed up before that period. Apple's fee decreases to 15 percent from 30 percent after the first year of a subscription.

Sensor Tower, an app-data firm, estimated that Apple still took in 23 percent of the roughly $670 million consumers spent on Spotify on the App Store from 2015 through 2018.

But Apple punishes companies that do not use its payment system by restricting their ability to communicate with customers and preventing the release of app updates, Spotify claimed. Spotify accused Apple of blocking its app and other Apple competitors from services such as Siri, HomePod and Apple Watch.

Spotify said Apple also treated companies differently. Uber, for example, is not required to pay a fee to Apple for charges through its app.

Apple demonstrated its power this year when, in response to Facebook's violating its app rules, it temporarily shut down Facebook's internal apps, including those for the company's cafeteria menu and shuttle schedule.

The European Commission has a history of turning a company's antitrust complaints into larger investigations of tech platforms. Last year, it fined Google a record €4.34 billion, about $5.1 billion at the time, for antitrust abuses related to its Android operating system, and forced Google to effectively loosen its grip over the platform. Google is appealing. European officials are also investigating possible anticompetitive practices by Amazon.

European regulators have expressed concerns about Apple's dominance in music. Last year, the European Commission held up Apple's acquisition of the song-identification app Shazam over concerns it would harm competition, though the deal was eventually approved. In 2016, the commission accused Apple of a tax avoidance scheme and ordered the company to pay $14.5 billion in back taxes to Ireland, a decision Apple is appealing.

It is unclear whether Spotify's complaint will lead European regulators to start a formal investigation of Apple. The term of Margrethe Vestager, the top antitrust official in the European Commission, ends this year, meaning the decision could fall to her successor.

"The commission has received a complaint by Spotify, which we are assessing under our standard procedures," the commission said in a statement.

In the United States, the Supreme Court is considering a suit brought by consumers claiming that Apple's control over the App Store represents an unfair monopoly, forcing customers to pay higher prices than they would in a more open market.

COEX-9.14

Google and Apple attacked on app store 'monopoly'

By James Clayton
North America technology reporter

22 April

Google's Sundar Pichai and Apple's Tim Cook

Senators have grilled Apple and Google in Washington over "anti-competitive" behaviour related to their app stores.

Representatives from Tile, Spotify and Match also gave evidence, accusing the two tech firms of charging exorbitant fees and copying their ideas.

Both Apple and Google's app stores charge fees of up to 30% for in-app purchases.

The two companies said the fees were justified to provide security for users.

The Senate Judiciary Committee's antitrust panel focussed on claims that Apple's App Store and Google's Google Play are anti-competitive.

Senator Amy Klobuchar said that Apple's App Store was a "literal monopoly".

She said both stores "exclude or suppress apps that compete with their own products" and "charge excessive fees that affect competition in the app store economy".

Google Play and the App Store are where the vast majority of apps worldwide are downloaded.

Developers claim that because of a lack of competition Apple and Google can charge extortionate rates.

There were also claims that Apple used its App Store to unfairly compete with rivals.

Apple's new AirTag

The hearing came a day after Apple launched its new product, AirTags. These

The hearing came a day after Apple launched its new product: AirTags. These can be attached to items like car keys to help users find them.

The product looks very similar to something already on the market - Tile.

Tile's locator disc

Tile's General Counsel Kirsten Daru said "We welcome competition but it has to be fair competition and Apple's idea of competing is patently unfair."

She also accused Apple of preventing Tile from using the technology behind Apple's Find My function, giving AirTags an unfair advantage.

Apple said the product was different. "We didn't copy Tile's product... It's extremely different to anything else on the market," said Apple's Chief Compliance Officer, Kyle Andeer.

Spotify also accused Apple of using its App Store to charge unfair rates - something Spotify's Head of Global Affairs, Horacio Gutierrez, described as an "Apple Tax".

Undercutting us

He also said that Apple directly competed with Spotify with Apple Music, and the in-app charges had made Spotify less competitive.

"They are undercutting us on price," he said.

He also criticised Apple for having rules that meant they were unable to tell customers that the service was cheaper if it was bought away from the App Store.

Apple said that Spotify had "been incredibly aggressive when it comes to dealing with artists and creators, and driving a hard bargain".

Mr Andeer said that "less than 1% of Spotify users pay a commission to Apple".

Match, which owns Tinder, also criticised Apple and Google for the charges it had to pay.

Iron-fisted monopoly

"It is iron-fisted monopoly control," said Match General Counsel Jared Sine.

"When an industry player has the power to dictate how apps operate, how much they will be forced to pay, and in many cases, if they will even survive, it is a monopoly."

Both Apple and Google rejected the idea that their app stores were monopolies - and said the charges were fair.

On 3 May, Apple and Epic Games, maker of the popular game Fortnite, will begin a court case in their dispute over the App Store charges.

James Clayton is the BBC's North America technology reporter based in San Francisco. Follow him on Twitter **@jamesclayton5**.

Related Topics

Spotify **Google** **Apple**

More on this story

Fortnite developer buys Fall Guys!

4 March

Apple investigated over 'unfair' App Store claims

4 March

Top Stories

Taiwan won't bow to China pressure, leader says

Tsai Ing-wen's speech comes a day after China's President Xi vowed to complete "reunification".

8 hours ago

Czech president in hospital amid election upheaval

7 hours ago

UK to resettle teenage Afghan women footballers

7 hours ago

Features

The most dangerous man in the world?

Thriller film sinks teeth into Hungary's opposition

Has China made over half of all Covid vaccines?

Oh Wonder: We spent our honeymoon in a burning building

The other companies owned by Newcastle's buyers

The 25-year-old who's been a clown for two decades

The forbidden erotica of ancient Pompeii

'Why drilling holes in fences can save hedgehogs'

Elsewhere on the BBC

Football phrases

15 sayings from around the world

Most Read

US couple accused of selling nuclear sub secrets 1

'I lost my job as a teacher after refusing vaccine' 2

The most dangerous man in the world? 3

Get used to higher food prices, says Kraft Heinz 4

Taiwan won't bow to China pressure, leader says 5

Pope launches consultation on Church reform 6

Top designer reveals fireplace explosion injuries 7

Czech president in hospital amid election upheaval 8

Mass protests in Poland amid EU law controversy 9

UK to resettle teenage Afghan women footballers 10

BBC News Services

On your mobile

On smart speakers

Get news alerts

Contact BBC News

Home | Sport | Worklife | Future | Music | Weather

News | Reel | Travel | Culture | TV | Sounds

Terms of Use About the BBC Privacy Policy Cookies Accessibility Help Parental Guidance

Contact the BBC Get Personalised Newsletters Why you can trust the BBC Advertise with us

AdChoices / Do Not Sell My Info

© 2021 BBC. The BBC is not responsible for the content of external sites. **Read about our approach to external linking.**

COEX-9.15

SLATE
READ THIS OVER YOUR $100 AVOCADO TOAST BRUNCH

THE INDUSTRY

Why Spotify Is Such an Awkward—and Necessary—Critic of Apple's Power

BY APRIL GLASER

MARCH 13, 2019 • 4:13 PM

Spotify has its own back, obvs. Lionel Bonaventure/Getty Images

Sen. Elizabeth Warren can welcome an unlikely new passenger to her anti-monopoly starship: Spotify. The music-streaming service shared that it filed an antitrust complaint against Apple with the European Commission on Wednesday, claiming that the App Store gives Apple an unfair advantage over its competition—in this case because it takes a 30 percent cut of any Spotify subscription that users pay for through Apple. One of Spotify's main competitors is Apple Music, which doesn't have to pay such a toll to the company that owns it. But Spotify is reliant on Apple's App Store, since millions of its users access the Spotify app on iPhones. Apple's fee for in-app purchases, according to Spotify CEO Daniel

Ek, "would force us to artificially inflate the price of our Premium membership well above the price of Apple Music. And to keep our price competitive for our customers, that isn't something we can do." To drive the point home, the Swedish company launched an advocacy website, timetoplayfair.com, where concerned Spotify users can learn more about the streaming giant's gripes.

Beyond the fees, Spotify also alleges that in some cases, Apple has restricted how Spotify can share promotions, like not allowing Spotify to email customers who are Apple users. If Spotify's claims lead to an investigation that finds that Apple is indeed unfairly controlling its platform in a way that stifles competition, the company may face fines and be forced to end any anti-competitive practices. This is somewhat similar to what happened with Google's Android last year, when European Union regulators imposed a record $5 billion fine on the company for violating its antitrust rules by, among other complaints, essentially requiring Android device-makers to pre-install Chrome and Google apps, thus putting other search engines at an unfair disadvantage. Apple could be seen as disadvantaging competitors by forcing them into Apple's payments system and then charging high fees on transactions.

Everything Spotify is arguing here is fair—it *is* a problem that the world's largest tech companies are also able to operate services on their own platforms. But it's also pretty rich. Just days before filing its European Commission complaint, Spotify published a blog post explaining why it was appealing a decision by the U.S. Copyright Royalty Board to raise the rates music-streaming services must pay songwriters and music publishers. Google, Amazon, and Pandora are also appealing. Apple is not, but if the others win, Apple will benefit from lower rates.

Currently, Spotify pays somewhere between $0.004 and $0.0084 per play to whoever holds the music rights to a song, which is usually some mix of record labels, artists, songwriters, and producers. These fractions of pennies won't really pay any bills unless you're roping in hundreds of thousands of streams a month. The federal Copyright Royalty Board ruled at the end of January that over the course of five years, royalty rates paid to artists and publishers will increase from 10.5 percent to 15.1 percent of revenue generated by the creative work. Spotify says that the reasoning behind the rate increase is flawed and will make it harder for Spotify to offer bundled services, like the bundle it announced earlier this week that gives a free Hulu subscription to Spotify Premium members. Spotify explained in its post that while it understands that everyone would wants a bigger piece of the pie, "that cannot come at the expense of continuing to grow the industry via streaming." Translation: us first.

While not every professional recording artist offers songs on Spotify, the vast majority of them do, reasoning—as Spotify does with the App Store—that the popular platform is where the audience is. And they do it despite often-paltry earnings. That may come down to the tiny royalty for music streams, and it may come down to artists' deals with their record labels (as the recent case of hip-hop group De La Soul and Tommy Boy Records illustrated). Perhaps it takes a critic like Spotify, another platform that arguably acts as an unfair gatekeeper, to highlight unfairness in Apple's gatekeeping. It's the companies that depend on Apple and are big enough to truly compete with it that are best positioned to critique it, since they have so much to lose if it abuses its power. But right now, Spotify's position is that it would like to keep more money from subscriptions while denying more of it to artists. It's too bad that this nascent critic of Apple's power hasn't spent much time examining its own.

All contents © 2021 The Slate Group LLC. All rights reserved.

COEX-9.16

COEX-
9.16

Why Do We Still Pay Only $10 a Month for Music?

rollingstone.com/pro/news/music-streaming-10-month-fee-924809

Amy X. Wang December 11, 2019

December 11, 2019 11:00AM ET
The price of music streaming has stayed flat for a decade, but not because tech companies are generous

By
Amy X. Wang

Amy X. Wang

Senior Editor, Music Business

@amyxwang Follow

Amy X. Wang's Most Recent Stories

- Clive’s Moving Castle
- Clive Davis: New York’s Homecoming Concert Will Be ‘Wonderfully Collaborative’
- Did ‘Butter’ Butter Butter?

View All

COEX-
9.16

2020 may be the year we finally see a price hike on streaming services..

Jacek Sopotnicki/imageBROKER/Shutterstock

Of the litany of things you can buy for $10 — a sandwich, a box of pens, and a print magazine among them — unlimited access to a catalog of 50 million songs is one of the most bang-for-your-buck options out there. But that's how much music-streaming subscriptions have cost their entire existence.

The coming year may be when that finally changes, for a number of reasons. First, Spotify, the leader of the music-streaming market, recently entered its second decade of existence towing 250 million users, 110 million of whom are paying subscribers; when tech companies hit such major growth milestones, they tend to hike up prices to begin recouping previous years' lost revenue, which is why Uber rides, Seamless deliveries, ClassPass sessions, and the products of other startups-turned-behemoths are more expensive now than they were at the start.

The music industry would welcome higher prices with open arms, as it's griped about streaming's meager payouts to rights-holders for a decade now. That's on top of the fact that nearly every other type of subscription, from Netflix to Amazon Prime, has boosted fees over that same decade — sometimes more than once. Per the U.S. rate of inflation, even a $10 bag of apples in 2008 should cost somewhere around $12 today.

So why hasn't anyone been charging more than $10 a month for music? "It's a billion-dollar question," says Russ Crupnick, managing director of music research firm MusicWatch. "It's been at least 15 years, if you include Rhapsody, that music subscriptions have been sold for the same price. Yet if you think about it, they work on more devices than ever, and have bigger catalogs and more features and functionality than ever. It's a measure of the competitiveness of the environment that the prices haven't changed."

With a dozen streaming services all offering the same songs and albums, it's risky for any one company to take the first step into users' wallets. "The one big difference between music and video is that Netflix has *House of Cards* and *Orange is the New Black* and all that," Crupnick says. "If you are really a fan of someone's original content, they can get away with sneaking in increases because they know you're waiting for the next season to binge. In music, if your favorite streaming service said they were going to raise prices, you could easily switch to a different one. There's no *House of Cards* exclusive for them to offer." (Music streaming did once make a foray into album exclusives, but it was ill-received and short-lived.) And while Spotify may suffer financially from its low pricing right now, juggernauts like Amazon and Apple don't mind operating their music arms at a loss because the rest of their businesses are profitable enough to compensate.

One route that music services could take is toward tiering — offering high-resolution streaming at a higher price, as TIDAL and Amazon do. Another is raising fees in regions that will tolerate it, as Spotify has been doing with experiments in its home region of Scandinavia. Going more niche could be another tactic: In a study by YouGov and Dutch-American classical streaming service Primephonic this month, 52% of American music fans said they would be willing to pay more than $10 a month for "a streaming service that truly meets their needs," with some willing to go as high as $20 a month. "It has become very clear that the 'one platform fits all genres approach' of major streaming services such as Spotify and Apple Music is increasingly causing frustrations with music lovers," Primephonic's CEO Thomas Steffens said in a note accompanying the study.

But offsetting the potential avenues toward charging more money is a sentiment that the standard $10-a-month price point for music may be too psychologically entrenched in the culture to ever budge. "The problem is that there are so many places you can listen for free," Nick Gatfield, a longtime music executive and the former CEO of Sony Music UK, tells *Rolling Stone.* Gatfield sees more potential profit in the "two-sided marketplace" that Spotify and other streaming services are exploring, in which the companies would charge artists and labels fees for using their data analysis tools, because the consumer music-streaming market is already too saturated to introduce much change. "It's an incredibly tough game," Gatfield says. "Unfortunately, music is like a utility now; you switch it on and it's there."

COEX-9.17

Spotify Technology S.A. (SPOT) Q4 2020 Earnings Call Transcript

SPOT earnings call for the period ending December 31, 2020.

Motley Fool Transcribers (MFTranscribers)
Feb 3, 2021 at 1:00PM

Spotify Technology S.A. (NYSE:SPOT)
Q4 2020 Earnings Call
Feb 3, 2021, *8:00 a.m. ET*

Contents:

- Prepared Remarks
- Questions and Answers
- Call Participants

IMAGE SOURCE: THE MOTLEY FOOL.

Prepared Remarks:

Operator

Ladies and gentlemen, thank you for standing by, and welcome to Spotify's Q4 2020 Earnings Call. [Operator Instructions]

I would now like to hand the call over to your speaker today, Bryan Goldberg, Head of Investor Relations. Thank you. Please go ahead.

Bryan Goldberg -- *Head of Investor Relations*

Great. Thank you, and welcome to Spotify's Fourth Quarter 2020 Earnings Conference Call. Joining us today will be Daniel Ek, our CEO; and Paul Vogel, our CFO. We'll start with opening comments from Daniel, and after the remarks, Daniel and Paul will be happy to answer your questions. We'll again be taking questions exclusively through Slido. Questions can be submitted by going to slido.com and using the code #SpotifyEarningsQ420. Analysts can ask questions directly into Slido and all participants can then vote on the questions they find the most relevant. If you don't have access to Slido, you can email investor

relations at ir@spotify.com and we'll add in your question.

Before we begin, let me quickly cover the Safe Harbor. During this call, we'll be making certain forward-looking statements, including projections or estimates about the future performance of the Company. These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could materially differ because of factors discussed on today's call, in our letter to shareholders and in filings with the Securities and Exchange Commission.

During this call, we'll also refer to certain non-IFRS financial measures. Reconciliations between our IFRS and non-IFRS financial measures can be found in our letter to shareholders, in the Financial section of our Investor Relations website and also furnished today on Form 6-K.

And with that, I'll turn it over to Daniel.

Daniel Ek -- *Chief Executive Officer, and Chairman*

All right. Thanks, Bryan, and hi, everyone, and thank you so much for joining us. Despite the global uncertainty of 2020, it was a remarkable year for Spotify. Following a strong Q2 and Q3, Q4 met or exceeded our guidance by nearly every metric. Monthly active users reached 345 million, coming in at the very top of the range, and we now have a 155 million subscribers, which surpassed all expectations.

Over the last year, we have demonstrated our ability to pivot quickly, anticipate user trends and adapt to their new behaviors. And it is easy to forget, but 2020 had plenty of uncertainty and puts and calls. Our success really is a testament to the strength of our teams and I'm confident this experience will serve us well in the future.

Going into 2021, COVID still has the potential to be a headwind as it's difficult to fully gauge its impact. For Spotify, more time at home resulted in more people discovering streaming and turning to our platform, but it also created disruption in listening habits, consumption hours and the release of new music and podcasts. We believe it caused us to pull forward subscribers across the back half of 2020, which makes it really hard to predict if we'll drive the same subscriber growth in the year ahead. However, the trend lines are healthy and long-term the shift from linear to on-demand that COVID accelerated will continue and remains a massive multi-billion user opportunity.

Knowing your focus is likely on our outlook for the upcoming year, I want to spend a few minutes addressing how I'm thinking about 2021 and some of the uncertainty and opportunity it brings. And as a reminder, our approach to

forecasting is to only forecast what we have a very high degree of certainty that we will achieve. Given the uncertainty we face today, I suspect that our full-year 2021 plan will have a higher variance than prior years. Therefore, what you see reflected in the forecast is what I believe we will absolutely do. This does not mean that that's what I hope we will achieve as evidenced by our outperformance in 2020.

So, I thought it might be worthwhile to outline some of the biggest drivers that may contribute to this variance. For example, while we have seen some pull forward effects that may slow down subscriber growth in some markets, we are shifting to drive more aggressive revenue growth where we know our pricing power will enable us to increase ARPU. We've long believed that Spotify provides exceptional value, and the positive early data we're seeing from this price increase that we announced in October makes us very optimistic that our users agree. This week, we implemented price increases across a number of markets and we will continue to evaluate future increases carefully based on the broader global economic impact of COVID.

Another important tailwind we will pursue is the continued expansion into new markets. We launched in South Korea on Tuesday morning, tapping into one of the fastest-growing music markets in the world. And there are still millions of creators and billions of listeners who don't yet have access to Spotify. And work is under way to change that and I will share more in the near future.

The impact from expansion into new markets also creates some uncertainty as we forecast user growth. And it's been challenging to predict, take Russia as a prime example. We quickly and significantly surpassed all expectations there. The result of this outperformance is that we saw some additional pull forward of user demand, again leading to growth in 2020 that we expected to occur in 2021.

Another area of the business where we are seeing extremely strong results, but where the true payoff to Spotify is still in front of us is podcasting. In the last year alone, we've tripled the number of podcasts on our platform, moving from about 700,000 in Q4 2019 to 2.2 million podcasts today. And we've also significantly grown the number of podcast users on Spotify. Going forward, I think our investments in originals and exclusives are creating more and more reasons for listeners to choose Spotify, and our exclusive programming is already proving to be an essential part of our differentiation. That said, with a small number of these shows on our platform today, but many more in the pipeline, it is very difficult to know exactly when we will see the compounding effect of these investments, but all early indications are very positive.

Another example is our advertising business. Other platforms have experienced

inconsistent ads growth in their early years and we are no exception to that. And we are putting more resources into developing this business and in Q4, our ads business accelerated, finishing above forecast. In our mature markets, our largest issue was that we were inventory constrained. And while this sounds like a good problem to have, and I guess it is, it is difficult for us to predict how quickly we can open up new inventory. And I expect that as the category of audio ads matures and more radio dollars move to streaming, this area will become much more predictable, but for the next year or two, it will be a bit more uncertain.

So, to conclude, 2021 brings more uncertainty than any normal year. That said, we have a high degree of confidence in our ability to deliver against the guidance we've provided. And we were able to overcome unprecedented uncertainty in 2020 and exceed almost all expectations. And I believe that we can do the same in 2021.

I'm also focused on identifying where we can seize new opportunities and drive sustained growth in the long-term. Just look at what happened to video in 2020. Linear video fell apart as viewers flocked to on demand. And the companies who were not prepared to take advantage of this disruption faced huge challenges as their business models were upended. A similar shift hasn't happened yet to linear radio, but you've long heard me say that it's coming. And I'm more confident today that that it's inevitable. But unlike video, there are only a handful of companies who will be able to take advantage of this disruption in audio. And no other company has the capabilities, or is as well positioned, as Spotify for this massive opportunity. And that is our eye on the prize.

And with that, I'll turn it back to Bryan.

Questions and Answers:

Bryan Goldberg -- *Head of Investor Relations*

Great. Thanks, Daniel. Again, if you've got questions, please go to slido.com #SpotifyEarningsQ420. Once your question is entered, you can edit or withdraw your question by selecting the option in the bottom right. We'll be reading the questions in the order they come in with respect to help people vote up their preferences for questions.

And our first question today is going to come from John Egbert of Stifel. The high-end of your 2021 subscriber guidance suggests you'll add fewer net new subs this year versus 2020. You noted churn should decline in 2021, but do you expect the newly announced price increases to represent a material headwind to sub growth in 2021? What other factors should we consider here?

Daniel Ek -- *Chief Executive Officer, and Chairman*

Yeah. This is Daniel. Long-term, again, this is a multi-billion user opportunity and I'm as confident about that as I've ever been. As I mentioned in my opening remarks, all that said, we are facing a global pandemic and that pandemic has shifted all user behavior in 2020. And as I mentioned also, did create some pull-forward effect throughout the year, that means that there are more uncertainty throughout the year on what will happen to the subscriber growth. So, again, our forecasting means that we do the things that were only very, very certain that we will deliver upon.

Specific to the price increases, Paul can probably address that to a greater extent. But we've seen very, very positive response from the price increases in October and we believe that will be the same for the price increases that we just concluded.

Paul, if you want to add anything?

Paul Vogel -- *Chief Financial Officer*

Yeah. I would just add a couple of things. I think to echo what Daniel said, I think in 2020 we obviously had a very, very strong year. Daniel mentioned in his opening comments, we pull forward the Russia launch. So Russia was a meaningful impact in 2020. We had originally thought that we wouldn't really see meaningful impact until 2021. So that helped 2020.

And in hindsight, we didn't really call out any specific quarter where we thought the benefits of people being at home or the tailwinds of streaming were necessarily in any one quarter. But in hindsight, when you look at it, it's a little bit tough to disaggregate how much was just better execution on our part, how much was some pull-forward from kind of the tailwind that streaming had in general in 2020? But we do believe that each quarter probably saw a little bit of pull forward as well.

When you go back and look at where we started 2020 and where we ended, we finished about 4 million, plus or minus, above where we thought when we started the year. So, definitely, some better execution there, probably some pull forward based on the tailwind that streaming had, as well as the pull forward in Russia.

And then when you look at 2021, I would say, Daniel mentioned, I think there is a higher degree of uncertainty than we normally have. There's lots of initiatives. I would say, uncertainty isn't always a bad thing. There is lots of things that could break positively. And there are some things that could be more challenging, but

they're just probably more of them in 2021 than we've experienced in years past and that's all baked into the forecast.

And then as Daniel mentioned, with respect to the forecast, we've always said to you guys, we will give you guidance based on what we actually think we're going to do, and that is what we've done this year as well. But that being the case, it really is a base case model of what we have a high degree of confidence that we will achieve, and it doesn't necessarily assume that we're going to have the upside in some of the initiatives, uncertainties where if they break positively, we could do better. So, again, we've given you a best case forecast and one that we feel that we have a high degree of confidence we will be able to achieve.

Bryan Goldberg -- *Head of Investor Relations*

All right. Our next question comes from Eric Sheridan of UBS. How should we think about the progress made against previously discussed investments in the podcast opportunity? Is there an update about the puts and takes in terms of upside to the business compared to global investments needed to scale over the coming years?

Daniel Ek -- *Chief Executive Officer, and Chairman*

Yeah. Overall, we're very pleased with what we're seeing. But just as a reminder, the primary opportunity, as we think about the long-term is in the radio -- linear radio experience by moving online and into on-demand. That is the eye on the prize, the one that we are chasing, and that's still what we're kind of looking at. As we look at that universe, tough, the primary thing that we've been focusing on as we got into this audio-first strategy was, we already have a massive user base on Spotify today, how can we turn them into podcast listeners? And extending our platform into becoming the de facto podcast players where a lot of these users dwell [Phonetic].

And that's evident, I think from this quarter compared to even last, we keep on extending number of users on our platform that are using podcast on the platform to now or a quarter of them that are podcast users. I think as we start getting on the upper end of those user end use, you will see us going outside and trying to convert more and more of the outside users who are not yet Spotify listeners to come onto the platform. And I think exclusives will be a material part of that strategy. And even there, I would say, it's very encouraging to see the early results of the exclusivity strategy that we have. But we are in the early days in the sense that there are many, many more exclusives that we have in the pipelines for 2021 that we're excited about. Hard thing is that, forecast what the compounding impact all of those when they happen and when you bring to Spotify there will be more and more reasons to come to Spotify. That's

one thing for sure, but it's sort of a near-term uncertainty in terms of the effect of that.

Paul Vogel -- *Chief Financial Officer*

The one thing I would add as well. I think if you go back a little over a year ago, I think we mentioned in one of our shareholder letters that we believe that podcast and podcast usage was highly correlated with improvements in retention and user growth, but we at that point couldn't really prove out the causality. I think you'll notice in the shareholder letter that we did mention that we now feel reasonably confident that we can prove out that causality of having

podcast and the benefit it is having on user growth and retention, and then having podcast is a positive contributor to LTV per subscriber. So, we're still going to continue to obviously work and launch that and test that, but we do feel good about sort of the incremental knowledge we have in terms of the positive impact of podcast is having in our platform.

Bryan Goldberg -- *Head of Investor Relations*

Okay. And the next question is from Allen Hao of Hao & Company. When will Spotify add social element of the overall experience like Tencent Music? Apps like Clubhouse could have an interesting entry to audio and Tencent Music could be a good way to follow up in some regard?

Daniel Ek -- *Chief Executive Officer, and Chairman*

Yeah. We're very interested and, obviously, pay close attention to everything that's happening in the markets around the world and new developments in audio. I've said this many times before, but I think we're in the early innings of the innovation of the audio formats. And creator-to-fan interactivity is definitely one of those things that we're paying attention to and looking at. And we are conducting experiments on it already. But I don't have any sort of specific here to announce. But there are plenty more things to come in the coming months in this year as well when it comes to sort of creator-to-fan engagements as well.

Bryan Goldberg -- *Head of Investor Relations*

Okay. Next question from Richard Kramer of Arete. In entering markets like South Korea what is your strategy for building a subscriber base, given that the market has six very well-established players?

Daniel Ek -- *Chief Executive Officer, and Chairman*

Yeah. We always take a large amount of time to try to analyze the markets and South Korea certainly not an exception to that rule. So, some would even say

that we're late to the party in some markets. Russia was kind of the same dialogue, but we've been studying the market for many, many years and we're well aware that South Korea is a mature market and that it will take time for us to establish ourselves.

I think the key is the same thing that we do in pretty much every single market, we deeply and we try to understand the content that we have. In many of the domestic markets, we try to bring an International flair to it and bring the creative talents that we have from all of our creators around the world to that platform. I think we can definitely do a good job there. I think our strength in personalization will certainly play incredibly well in South Korea.

And specific to the South Korean market, we obviously have a lot of partnerships. For instance, with Samsung, which is a major player in South Korea. So that and the 2000 other devices that Spotify is on is the major contributing factor I think to why the user experience is better and why I think South Korean consumers are very excited about Spotify.

Bryan Goldberg -- *Head of Investor Relations*

Okay. Our next question comes from Brian Russo of Credit Suisse. Do you think consumers would be willing to pay specifically for podcasts? And if so, would the margin profile of that podcast revenue look different than your existing premium service?

Daniel Ek -- *Chief Executive Officer, and Chairman*

I think we're in the early days of seeing the long-term evolvement of how we can monetize audio on the Internet. I've said this before, but I don't believe that it's a one-size-fits-all. I believe, in fact, that we will have all business models, and that's the future for all media companies that you will have ad-supported subscription and a la carte sort of in the same space of all media companies in the future, and you should definitely expect Spotify to follow that strategy in that pattern. So, I think it's early days though to specifically kind of look at how that could play out. But, obviously, if that were to be the case, that revenue profile will be different than how we view music.

Bryan Goldberg -- *Head of Investor Relations*

Okay. Next question from Mike Morris of Guggenheim. Did the meaningful audience uptick for The Joe Rogan Experience come from new or existing Spotify users? How does the premium-to-free mix of heavier podcast users compare to the overall base? And can you share the churn difference between podcast users and non- or light users?

Daniel Ek -- *Chief Executive Officer, and Chairman*

Daniel Ek -- *Chief Executive Officer, and Chairman*

Paul, do you want to take this one?

Paul Vogel -- *Chief Financial Officer*

Yeah. I'm not going to be overly specific, but obviously we do believe that Joe Rogan has contributed positively to user growth on the platform. We haven't broken out how much of his usage has come from existing users or new users. But if you sort of take a giant step back, part of the strategy when you bring someone like that on the platform is, it's going to have a couple of different effects. One is to bring new people onto the platform, and another is to create a

better experience for those already on the platform, whereby their retention increases or their churn goes down. And so, all of that is still what we believe to be the case and will happen. We hadn't really given the split between free and paid podcast users. But as I said earlier in my commentary, we are increasingly comfortable that podcasting are having a positive effect on LTV for subscribers. And so, that's where the continued investment comes from.

Bryan Goldberg -- *Head of Investor Relations*

Okay. Another question in the queue from Eric Sheridan at UBS. How does the team think about strategies around tiering the product by format or content over the long-term? I just love that question. Here we go.

Paul Vogel -- *Chief Financial Officer*

Can you take that one?

Daniel Ek -- *Chief Executive Officer, and Chairman*

Yeah. I mean, I can try to answer it anyway. So, again, I think we're currently in the evolution stage. And I think you can see this in other media formats as well where it's pretty much been a -- in the early stages of adoption, we try to go for simplicity, so you have a one-size-fits-all in order to have an easy consumer proposition that consumers understand. In our case, we had a free-tier and a paid-for-tier. We've evolved that model to, I mean, free and paid, family and students. I think as you get to the next level of growth and even more local markets as we expand, you can see many more configurations than the ones that are currently there and it's going to be a mix between subscription and advertising and a la carte that will play a role into the Spotify future.

Bryan Goldberg -- *Head of Investor Relations*

Okay. Next question from Matt Thornton at Truist Securities. As it relates to price increases, could we see a family plan price increase in 2021 in the US? Further,

does guidance assume any impact to retention, conversion, gross adds from the planned price increases?

Paul Vogel -- *Chief Financial Officer*

Do you want to take it or I'll take it? So, on the price increases, as we've talked about, we launched seven markets a little while ago and then 25 more markets most recently. We are not going to specifically talk about what markets may or may not come in the future. So we'll just have to see. I mean, there's obviously a number of factors that will go into price increases and where we launch them in the magnitude and there are number of factors, some of them are -- the

maturity of the market, both from streaming in general, our penetration rate there, how we feel about each individual market. And so, from pricing, that's kind of how we think about. I mean, with the impact on the model, as I've said, we have assumed the price increases in the model where we know we're going to launch them and we're going to launch them.

So, again, just to reiterate how we think [Technical Issues] plan throughout the year is baked into our guidance. That being said, as it go back to my earlier comments, we sort of give you the base case of what's going to happen. So, we have some assumed positives or negatives to churn our retention based on price increases and we'll see how the year rolls out. And I think, as Daniel mentioned earlier, there's still churns [Phonetic] of uncertainty throughout the year. COVID being one and the impact that has on the global economies. I will say, in other words, past 2020, we had expected to experiment with more price increases in 2020 than we did. We pulled back on that because of the pandemic and because of the uncertainty and because of not wanting to raise that with consumers, given all that was going on. And so, when we talk about the unknowns into 2021 that's another unknown, which is how confident do we feel in certain markets and the timing and a lot of is still TBD.

Bryan Goldberg -- *Head of Investor Relations*

Okay. Next question from -- another one from Richard Kramer. Artists lost their main source of income during the pandemic, live performance. Is Spotify in a position to support live-streaming performances whereby artists would get directly remunerated -- excuse me, directly paid by the platform?

Daniel Ek -- *Chief Executive Officer, and Chairman*

Yeah. This has been a very, very rocky year, of course, for a lot of artists around the world and they've seen sort of their lives upended based on COVID and their livelihoods. We have responded in a number of ways, including Artist Picks, the COVID Relief Fund, etc. And one of those happens also that traditionally on this

COVID Relief Fund, etc. And one of those happens also that traditionally on this Spotify artist pages, we have had concert listings. We have now evolved those to include also live performances as well. Those do not happen through Spotify directly, but it's facilitated so that artists can point consumers to that. And I know that there has been a number of artists that have been experimenting with those types of performances and some have been quite successful in doing so. So we are absolutely offer the opportunity, but it's not something that we are principal of today. But we, of course, look very carefully about how it's going and what works better than what doesn't to evolve. And, again, long-term our strategy, as I said, it is to allow those creators-to-fan engagements to happen on the platform in an even greater extent than what it currently does today.

Bryan Goldberg -- *Head of Investor Relations*

Okay. Next question from Rich Greenfield of LightShed Partners. We've seen Amazon buy Wondery to integrate podcasts into Amazon Music and Apple appears to be gearing up to launch some form of subscription podcast product. While this is clear strategy validation, curious, how you expect it to impact Spotify and the ability to make acquisitions in the category?

Daniel Ek -- *Chief Executive Officer, and Chairman*

Yeah. I mean, what I would say is, I definitely do believe that and we're not surprised that something like audio that interest billions of consumers around the world also will catch the attention of the big companies because there aren't [Phonetic] very few spaces that have hours of most consumers time of day and reach billions of people at the same time. So, we're not surprised that this is happening. And we also do look at it as a validation that we're heading in the right direction.

Again, we did expect this, hence, why we have also been very aggressive previously with the acquisitions. Most of our strategy going forward, while we don't exclude any further acquisitions, it is about ramping the ability of our own production capabilities that we now have through all the studios that we have acquired.

And just to put that in a finer point because I think this is kind of one of the internal points that I use to our team most of the time. I believe about three years ago, there were fewer than 30 people at Spotify that were actively producing content, that ended up on our service in one way or the other. And that number now is, I would say, certainly during '21 will be closer to 1,000 people. So it's really a tremendous kind of shift as a Company and even our skill sets that we have. And we're looking to use some of those muscles that we have added to our roster throughout the last two years and create even more amazing content for our users to experience.

amazing content for our users to experience.

Bryan Goldberg -- *Head of Investor Relations*

We got another question from Richard Kramer. Is there any reason to believe you can change the terms of deals with labels to carve out time for podcasts and reduce the value of payouts to labels for the pool of listening?

Daniel Ek -- *Chief Executive Officer, and Chairman*

While I can't comment specifically on how our label deal terms looks like, we have said this before, but podcast is a separate category and does not involve how we payout for music royalties.

I don't know, Paul, if you wanted to add something to that?

Paul Vogel -- *Chief Financial Officer*

No. As we said, we carve out the advertising on podcasting. So, as that grows, we'll continue to get the benefit of the advertising revenue on top of podcast. And then, to Daniel's point, how the relationships evolve over time, we don't really give specifics, they always change.

Bryan Goldberg -- *Head of Investor Relations*

Okay. Next question from Steven Cahall. The implied 2021 incremental operating margin looks like it's approximately 3%. Is 2021 indicative of the operating leverage of the business on OI? Or are there other factors ahead that should be -- that should drive more meaningful margin expansion?

Paul Vogel -- *Chief Financial Officer*

Yeah. I don't want necessarily get into full modeling discussion on this call. But, I guess, I'll give some high-level thoughts on kind of operating margins over time. I would say, one is, you do have to take into consideration year-over-year and the impact of social charges have on reported numbers, but we can sort of take that aside and we're happy to have those conversations off-line.

When you look at sort of the big components on the operating -- the impacts of the operating margin after the gross profit, when you think about R&D, we've been pretty consistent and steady about talking about that we're continuing to invest heavily in the business that we're going to -- that's an area of our financial model that you probably want a lot of leverage in, that if we could, we probably even spend more there in order to continue to grow the business.

And then when you look at sort of sales and marketing, I think, there are areas over time that we could be more efficient there, potentially on the marketing side we'll see and then also on the sales side as we add more automation into

the ecosystem and more self-serve products and those types of things.

And on the G&A side as well. I mean, it's a heavy lift first to go and be prepared to be a public company. And then as you continue to launch more and more markets, what you need to do from the infrastructure standpoint, obviously, there's some build out there. But you can imagine, over time once we're in more markets where we want to be and where it is sufficient scale, you'll start to see leverage on the G&A side as well.

Daniel Ek -- *Chief Executive Officer, and Chairman*

Maybe want to add one more perspective, too. We are very much still in the investment phase of Spotify. And it's not just the investment phase in music that we're pursuing because clearly there we could show a lot more operating margin improvements as well by, for instance, of lowering the sales and marketing costs and some of those things that Paul mentioned. But we're going after billions of consumers around the world and we're going broadly after the category called audio. And even more so I think the future of that audio platform is one where you will have millions of creators that are interacting with consumers in a social fashion. And to allow us to be that platform where they can grow their audience, they can engage with their audience and they can monetize them in a number of different ways. Those are all the capabilities that we're investing behind. And these are multi-year investments. Plus, of course, adding to the fact that we're producing our own content, we're then pursuing the exclusives. We're going into categories. We're going into new markets. Those are all the things that you're seeing in the P&L coming through that we are doing. In many cases, on a company of our size, many of the investments we're even making now are years in the making and many of the things you see flow through from the goodness are also things that we did years ago. So, we're very, very bullish on the long-term and we're still investing behind that bullishness. And that's what you should be expecting. And I think at a mature stage, their business will look very different than the growth stage that we're investing right now.

Bryan Goldberg -- *Head of Investor Relations*

Okay. Next question from Mario Lu at Barclays. Currently in Korea, it launched only with the premium individual and duo plans with no option of either the family plan or freemium model, which should help drive ARPU. That being said, can you speak a bit to why you came to that decision and if we will eventually see both plans in Korea?

Daniel Ek -- *Chief Executive Officer, and Chairman*

Yeah. Just quickly and this is not very uncommon practice for us. We typically launch, as I mentioned, with a very simple proposition in markets and then over time build on. And that's something that's been incredibly successful for us to do. And if you go back to on the call [Phonetic] market launches kind of follows the same pattern. Go in with a very clear proposition through a very clear audience and then broaden that proposition over time, both with more local content with more local nuances. And as we mentioned, more plans and pricing, just we mentioned one example like prepaid planning is something that we've been experiencing with -- in Southeast Asia. That's just one example of us innovating to local nuances.

Bryan Goldberg -- *Head of Investor Relations*

Okay. Next question from Rich Greenfield. There was a recent article about podcasters being disappointed in the Anchor's ability to deliver sponsorship with ads often for Anchor/Spotify. What happened and does this tie into why you bought Megaphone?

Daniel Ek -- *Chief Executive Officer, and Chairman*

Well, what I would generally say is, we're early on in our podcast platform monetization efforts. So most of the focus so far has been how do we get more great content on the service and the vast majority of podcasters on the service today are self-monetized. We have been experimenting with various forms of monetization, including, of course, the ability of one for podcasters to monetize themselves, but then our -- the Anchor monetization efforts that you mentioned and now also with Megaphone as part of that. We are very bullish on the opportunity to provide a meaningful way for podcasters to monetize through the platform efforts. And I hope to be able to talk a little bit more about what our plans are in the near future on that. But, again, lots of experimentation that you should feel comfortable that there is a lot in our capabilities and portfolio that I think we can bring to be amazing creators that are doing podcasts on the platform today.

Bryan Goldberg -- *Head of Investor Relations*

Okay. Another question in the queue from Mario Lu. Can you remind us how price increases flow through to costs? In other words, do labels receive the same share of the price increase or is there a min/max threshold for pass-throughs?

Paul Vogel -- *Chief Financial Officer*

Yeah. As we said in the past, we're never going to give you specifics of how any of our label deals work. That being said, anytime we're raising prices, I think the labels are happy with that. But in terms of how it flow through, we don't get into

labels are happy with that. But in terms of how it flow through, we don't get into specifics.

Bryan Goldberg -- *Head of Investor Relations*

Okay. Another question from Richard Kramer. What's the total investment you've made in acquisitions and commitments to content owners in the podcast space and how do you measure the payback on that investment? Will it be in ad sales, conversion to premium, or separate subscriptions?

Daniel Ek -- *Chief Executive Officer, and Chairman*

Paul, do you want to take one?

Paul Vogel -- *Chief Financial Officer*

Yeah. So, look, I think from a payback, there's a -- it is a holistic approach, and I think you mentioned a number of them in the question itself. And so, when we look about -- when we look at the investment in podcast whether it's something developed on our own or license or buy, the model that we build out has all of those factors into it. So there's an expectation of potential new users that may come to the platform based on having this content. There's increasing, we're starting to be able to measure what we think the retention benefits would be through having that on the platform as well. And then over time it's -- how much can we grow advertising add so [Phonetic] else through it. There's a lot of nuance in there. Obviously, there's certain points and inflection points where you have enough content on certain type of content or certain genre or certain demo where you could have an inflection point on the advertising side, but once you get that threshold, you can even have a faster growth because you have that critical mass. And so, that will weigh into as well. So we look at all of those factors to measure it.

And, I would say, additionally, as I said earlier, for us it's really spending the time to understand how much value different pieces of content have on our platform. Understanding what we should be paying for different pieces of content on the platform and then understanding sort of the causality between having it and then how much it benefits LTV. So, we're looking at all of that. We're modeling all of it out. And I think when you look at, as Daniel mentioned, we continue to invest and be in an investment mode. We had said back [Technical Issues]

Daniel Ek -- *Chief Executive Officer, and Chairman*

I think we lost Paul there. Some fix and glitches.

Bryan Goldberg -- *Head of Investor Relations*

Paul, you're back.

Paul Vogel -- *Chief Financial Officer*

I'm back now. Sorry about that. I was saying that if you go back, in the past, we said, if we continue to -- you continue to see us invest in podcast and podcast content, it's because we are seeing the benefits within our ecosystem. And the more we invest, the more you can have some confidence that the good news we are seeing through Spotify and the benefits we're seeing, we're going to continue and do invest again.

I apologize, if I got cut off too much, I'm happy to restate anything I missed.

Bryan Goldberg -- *Head of Investor Relations*

We've got a related question in the queue from Josh Le of Covenant Capital. You expect 2021 gross margin to be lower than the current level, while seeing premium ARPU improvement. Can you elaborate on content cost and podcast investments in 2021?

Paul Vogel -- *Chief Financial Officer*

Yeah. Let me address a couple of that. So, with respect to ARPU, I think we said is improvements in ARPU, up year-on-year. When you look at it on a -- on an FX-neutral basis, I think for the full-year, ARPU will probably roughly flattish. Currency is still a pretty big impact on our business. It's pretty material in Q1, as I think we wrote in the shareholder letter. So, it will still be down a little bit in the first half of the year. We do expect ARPU to increase sequentially throughout the year. But, again, because of currency, it probably still be slightly negative from a reported basis.

The second part of the question was just on gross margin in general. Yeah. I mean, I think there's always lots of puts and takes in gross margin. If you look over the last couple of years, we've sort of hovered between 25%, 25.5% gross margin. We do have some control on our investment to how much we want to spend and what we feel comfortable with respect to where we -- what are on the growth curve, where we want to continue to double down on spending. And so, I mean, there is a continued increase in podcast spending in 2021. The revenue against podcasting is growing very, very nicely as well. So we are seeing that. We're not quite at the point yet where the revenue is outpacing the continued investment. We are very optimistic that over time we will get there. But as Daniel mentioned, we're going to continue to invest and that investing has a compounding effect and a compounding benefit on the business. And so, that's where we're headed.

Bryan Goldberg -- *Head of Investor Relations*

Bryan Goldberg -- *Head of Investor Relations*

Okay. Another question from Rich Greenfield at LightShed. It appears Apple is going to enable direct monetization for podcasters akin to Patreon, compared to an aggregated subscription the way Spotify does. Can you explain why your model is superior for podcasters?

Daniel Ek -- *Chief Executive Officer, and Chairman*

Yeah, sure. So, first and foremost, while I can't speak to what anyone potentially may do, I think I alluded to this in some of my prior remarks. I don't view the future of Spotify to be a one-size-fits-all. And even today, if you are a podcaster,

there are plenty of ways for you to monetize through Spotify. So, again, you can come in as a consumers as a free user, you can come in as a paid subscriber. And long-term I believe that we will allow for all three models, which is both advertising, subscription and a la carte as the future for creators.

Bryan Goldberg -- *Head of Investor Relations*

Okay. Another question from Richard Kramer. Given that your podcast engagement definition is MAUs seeing content for more than zero milliseconds, can you provide us with a more useful metric on podcasting? For example, time spent relative to music?

Paul Vogel -- *Chief Financial Officer*

Yeah. It's not to mention, we've given out in the past, we've talked about that the 25% of our MAU engagement with podcasts. That's where we are now, which was up from 22% in Q3. Clearly, music is still the dominant mode on Spotify, but the podcast listening has continued to move up materially every quarter and was up again in Q4. So...

Bryan Goldberg -- *Head of Investor Relations*

All right. Great. We've got time for one more question and that's going to come from Ben Swinburne at Morgan Stanley. Daniel, is the growth strategy shifting from focused on users to a balance of price and users? If so, why does that make sense to do now, does it suggest user growth has peaked?

And then a follow-up for Paul, does the premium user guide for first quarter '21 assume any additional churn from the price increases?

Daniel Ek -- *Chief Executive Officer, and Chairman*

Why don't I start and then you can take the second part of your question, Paul? Yeah. So from my side, I think we've talked about this a number of different times, including when Barry was there. There's three legs to the stool of how we

times, including when Barry was there. There's three legs to the stool of how we can grow: one, we can improve our product composition; two, we can launch new markets; and three, we can raise prices. Up until now, you haven't really seen us flex the third on muscle because we didn't focus on improving our product proposition and launching new markets. And that is still the majority of what we're doing. But take my home country, Sweden as a great example. That is a clear case where we aren't tapping out of -- in an addressable population, hence raising prices in Sweden probably makes sense in order to grow, which then, obviously, not only compensate Spotify, but compensate all the amazing creators we have on our platform and allows us to strengthen the proposition for them as well.

So, we're trying to optimize for growth and there's three ways to grow and we're now adding the third part of the stool here as well. But I don't think you should read into that, that the growth has peaked. It is more that we are now sort of flexing our muscles and adding that third part, too. And we have experimented with this for quite some time, I should say, as well, like we started two years ago. So, it's not something that we've done just in a rush. We did in Norway two years ago. We've done it since in Argentina, Australia and in many, many other markets throughout the time. But this is the time maybe where you're seeing it's actually becoming a real part of the strategy.

Mostly, in fact, because of all the positive response that we have been seeing of just the value that we're providing already to consumers. So, we feel we have this opportunity and that it will benefit both Spotify and the -- all the amazing creators on the platform.

Paul Vogel -- *Chief Financial Officer*

Yeah, Ben. And then with respect to Q1, in particular, I would call it a couple of things. One is, last year in Q1, we had an exceptionally strong Q1. We had, as we often do, experimented with different marketing plans and different plans. And so, we had some of our promotional activity, which normally ends at the end of the year continue on through into February of Q1 2020, which we think, obviously, benefited Q1 of last year. We don't have a similar promotion running in Q1 of this year. So the comp between a promotion last year, no promotion this year will definitely impact growth in Q1.

And I would say, secondarily, we obviously had a very, very strong Q4. We think there's potential, we pulled forward some of what we would normally get in Q1 into Q4 given the upside there. So, again, we feel really geared about kind of where we're headed in 2021, but Q1 does have some pretty challenging comps relative to the promotional activity we had last year and the lack thereof in Q1 of this year.

Bryan Goldberg -- *Head of Investor Relations*

Okay. We're out of time for the question-and-answer session. I will turn it back over to Daniel for some closing remarks.

Daniel Ek -- *Chief Executive Officer, and Chairman*

All right. Well, thanks, Bryan. I'm very encouraged by the progress we've made on our path to becoming the world's number one audio platform. And I want to thank all the Spotify employees who stayed focused on our creators, fans, and partners around the world this year, and for executing at such a high level. While

it's still early days, it's clear to us that our strategy is working. Looking ahead, we will continue to enhance the user experience, expand into new markets, and develop and acquire unique content from both new and established creators. We're planning to share more details about these innovations, as well as what's next for Spotify during our Stream On event later this month. I hope you'll join us for this virtual event as it will shed more light on what the coming months and years will bring.

I'll be talking more about it, and our earnings report on our podcast, Spotify: For The Record, which will go live on our platform tomorrow. Thanks again for joining us.

Bryan Goldberg -- *Head of Investor Relations*

Okay. And that concludes today's call. A replay will be available on our website and also on the Spotify app under Spotify Earnings Call Replays. Thanks again everyone for joining.

Operator

[Operator Closing Remarks]

Duration: 47 minutes

Call participants:

Bryan Goldberg -- *Head of Investor Relations*

Daniel Ek -- *Chief Executive Officer, and Chairman*

Paul Vogel -- *Chief Financial Officer*

More SPOT analysis

All earnings call transcripts

This article represents the opinion of the writer, who may disagree with the "official" recommendation position of a Motley Fool premium advisory service. We're motley! Questioning an investing thesis -- even one of our own -- helps us all think critically about investing and make decisions that help us become smarter, happier, and richer.

This article is a transcript of this conference call produced for The Motley Fool. While we strive for our Foolish Best, there may be errors, omissions, or inaccuracies in this transcript. As with all our articles, The Motley Fool does not assume any responsibility for your use of this content, and we strongly encourage you to do your own research, including listening to the call yourself and reading the company's SEC filings. Please see our Terms and Conditions for additional details, including our Obligatory Capitalized Disclaimers of Liability.

Motley Fool Transcribers has no position in any of the stocks mentioned. The Motley Fool owns shares of and recommends Spotify Technology. The Motley Fool has a disclosure policy.

COEX-9.18
RESTRICTED
FILED UNDER SEAL

COEX-9.19

COEX-
9.19

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2019

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:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	None	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 ☒

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 ☒ 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 ☒

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

There is no public market for the registrant's common stock. As of November 27, 2019 the number of shares of the registrant's common stock, par value $0.001 per share, outstanding was 1,060. 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.

COEX-
9.19

WARNER MUSIC GROUP CORP.

INDEX

			Page Number
Part I.	**Item 1.**	Business	1
	Item 1A.	Risk Factors	16
	Item 1B.	Unresolved Staff Comments	27
	Item 2.	Properties	28
	Item 3.	Legal Proceedings	28
	Item 4.	Mine Safety Disclosures	28
Part II.	**Item 5.**	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	29
	Item 6.	Selected Financial Data	30
	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	31
	Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	66
	Item 8.	Financial Statements and Supplementary Data	67
	Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	124
	Item 9A.	Controls and Procedures	124
	Item 9B.	Other Information	125
Part III.	**Item 10.**	Directors, Executive Officers and Corporate Governance	126
	Item 11.	Executive Compensation	132
	Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	147
	Item 13.	Certain Relationships and Related Transactions, and Director Independence	149
	Item 14.	Principal Accountant Fees and Services	152
Part IV.	**Item 15.**	Exhibits and Financial Statement Schedules	153
	Item 16.	Form 10-K Summary	157
Signatures			158

PART I

ITEM 1. BUSINESS

FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K (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 (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). 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 such 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.

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 entertainment 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. and its consolidated subsidiaries, unless the context refers only to Warner Music Group Corp. as a corporate entity.

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 New York Stock Exchange (the "NYSE"). The Company continues to voluntarily file with the U.S. Securities and Exchange Commission (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") as provided for in certain covenants contained in the instruments covering its outstanding indebtedness. All of the Company's common stock is owned by affiliates of Access.

Our Company

We are one of the world's leading music entertainment companies. Our renowned family of iconic record labels, including Atlantic Records, Warner Records, Elektra Records and Parlophone Records, is home to many of the world's most popular and influential recording artists. In addition, Warner Chappell Music, our global music publishing business, boasts an extraordinary catalog that includes timeless standards and contemporary hits, representing works by over 80,000 songwriters and composers, with a global collection of more than 1.4 million musical compositions. Our entrepreneurial spirit and passion for music has driven our recording artist and songwriter focused innovation for decades.

Our Recorded Music business, home to superstar recording artists such as Ed Sheeran, Bruno Mars and Cardi B, generated $3.840 billion of revenue in fiscal 2019, representing 86% of total revenues. Our Music Publishing business, which includes esteemed songwriters such as Twenty One Pilots, Lizzo and Katy Perry, generated $643 million of revenue in fiscal 2019, representing 14% of total revenues. We benefit from the scale of our global platform and our local focus.

Today, global music entertainment companies such as ours are more important and relevant than ever. The traditional barriers to widespread distribution of music have been erased. The tools to make and distribute music are at every musician's fingertips, and today's technology makes it possible for music to travel around the world in an instant. This has resulted in music being ubiquitous and accessible at all times. Against this industry backdrop, the volume of music being released on digital platforms is making it harder for recording artists and songwriters to get noticed. We cut through the noise by identifying, signing, developing and marketing extraordinary talent. Our global artists and repertoire ("A&R") experience and marketing strategies are critical ingredients for

recording artists or songwriters who want to build long-term global careers. We believe that the music, not the technology, delights fans and drives the business forward.

Our commercial innovation is crucial to maintaining our momentum. We have championed new business models and empowered established players, while protecting and enhancing the value of music. We were the first major music entertainment company to strike landmark deals with important companies such as Apple, YouTube and Tencent Music Entertainment Group, as well as with pure-play music technology companies such as MixCloud, SoundCloud and Audiomack. We adapted to streaming faster than other major music entertainment companies and were the first such company to report that streaming was the largest source of our recorded music revenue in 2016. Looking into the future, we believe the universe of opportunities will continue to expand, including through the proliferation of new devices such as smart speakers and the monetization of music on social media and other platforms. We believe advancements in technology will continue to drive consumer engagement and shape a growing and vibrant music entertainment ecosystem.

We maintain an Internet site at www.wmg.com. Our website and the information posted on it or connected to it shall not be deemed to be incorporated by reference into this Annual Report.

Company History

The Company today consists of individual companies that are among the most respected and iconic in the music industry, with a history that dates back to the establishment of Chappell & Co. in 1811 and Parlophone in 1896.

The Company began to take shape in 1967 when Warner-Seven Arts, the parent company of Warner Records (formerly known as Warner Bros. Records) acquired Atlantic Records, which discovered artists such as Led Zeppelin and Aretha Franklin. In 1969, Kinney National Company acquired Warner-Seven Arts, and in 1970, Kinney Services (which was later spun off into Warner Communications) acquired Elektra Records, which was renowned for artists such as The Doors and Judy Collins. In order to harness their collective strength and capabilities, in 1971, Warner Bros., Elektra and Atlantic Records formed a groundbreaking U.S. distribution network commonly known as WEA Corp., or simply WEA, which now stretches across the world.

Throughout this time, the Company's music publishing division, Warner Bros. Music, built a strong presence. In 1987, the purchase of Chappell & Co. created Warner Chappell Music, one of the industry's major music publishing forces with a storied history that today connects Ludwig van Beethoven, George Gershwin, Madonna and Lizzo.

The parent company that had grown to become Time Warner completed the sale of the Company to a consortium of private equity investors in 2004, in the process creating the world's largest independent music company. The Company was taken public the following year, and in 2011, Access acquired the Company.

Since acquiring the Company, Access has focused on revenue growth and increasing operating margins and cash flow combined with financial discipline. Looking past more than a decade of music entertainment industry transitions, Access and the Company foresaw the opportunities that streaming presented for music. Over the last eight years, Access has consistently backed the Company's bold expansion strategies through organic A&R as well as acquisitions. These strategies include investing more heavily in recording artists and songwriters, growing the Company's global reach, augmenting its streaming expertise, overhauling its systems and technological infrastructure, and diversifying into other music-based revenue streams.

The purchase of Parlophone Label Group ("PLG") in 2013 strengthened the Company's presence in core European territories, with recording artists as diverse as Coldplay, David Bowie, David Guetta and Tinie Tempah. That acquisition was followed by other investments that further strengthened the Company's footprint in established and emerging markets. Other milestones include the Company's acquisitions of direct-to-audience businesses such as entertainment specialty e-tailer EMP (as defined later in this Annual Report), live music application Songkick and youth culture platform UPROXX.

Our Business Strengths

Well-Positioned to Benefit from Growth in the Global Music Market Driven by Streaming. The music entertainment industry has undergone a transformation in the consumption and monetization of content towards streaming over the last five years. According to the International Federation of the Phonographic Industry or IFPI, from 2015 through 2018, global recorded music revenue grew at a CAGR of 9%, with streaming revenue growing at a CAGR of 45% and increasing as a percentage of global recorded music revenue from 20% to 47% over the same period. By comparison, from fiscal year 2015 to fiscal year 2018, our recorded music streaming revenue grew at a CAGR of 42% and increased as a percentage of our total recorded music revenues from 24% to 52%. We believe our innovation-focused operating strategy with an emphasis on genres that over-index on streaming platforms (e.g., hip-hop and pop) has consistently allowed our digital revenue growth to outpace the market, highlighted by our

becoming the first major music entertainment company to report that our streaming revenue was the largest source of recorded music revenue in 2016.

The growth of streaming services has not only improved the discoverability and personalization of music, but has also increased consumer willingness to pay for seamless convenience and access. We believe consumer adoption of paid streaming services still has significant potential for growth. For example, according to MIDiA, in 2018, approximately 30% of the population in Sweden, an early adopter market, was paid music subscribers. This illustrates the opportunity to drive long-term growth by increasing penetration of paid subscriptions throughout the world, including important markets such as the United States, Japan, Germany, the United Kingdom and France, where paid subscriber levels are lower. Our catalog and roster of recording artists and songwriters, including our strengths in hip-hop and pop music, position us to benefit as streaming continues to grow. We also believe our diversified catalog of evergreen music amassed over many decades will prove advantageous as demographics evolve from younger early adopters to a wider demographic mix and as digital music services target broader audiences.

Established Presence in Growing International Markets, Including China. We believe we will benefit from the growth in international markets due to our local A&R focus, as well as our local and global marketing and distribution infrastructure that includes a network of subsidiaries, affiliates and non-affiliated licensees in more than 60 countries. We are developing local talent to achieve regional, national and international success. We have expanded our global footprint over time by acquiring independent recorded music and music publishing businesses, catalogs and recording artist and songwriter rosters in China, Indonesia, Poland, Russia and South Africa, among other markets. In addition, we have increased organic investment in heavily populated emerging markets by, for example, launching Warner Music Middle East, our recorded music affiliate covering 17 markets across the Middle East and North Africa with a total population of 380 million people. We have also strengthened our Warner Music Asia executive team with new appointments and promotions. According to IFPI in 2018, recorded music industry revenues in Asia and Australasia grew 12% year-over-year. Over the same period and on a constant-currency basis, we grew revenues in Asia and Australasia by 21%, again outpacing the industry.

With every region around the world at different stages in transitioning to digital formats, we believe establishing creative hubs by opening new regional offices and partnering with local players will achieve our objective of building local expertise while delivering maximum global impact for our recording artists and songwriters. For example, we recently invested in one of Nigeria’s leading music entertainment companies, Chocolate City, and music from this influential independent company’s recording artists and songwriters will join our repertoire and receive the support of our wide-ranging global expertise, including distribution and artist services.

Differentiated Platform of Scale with Top Industry Position. With over $4 billion in annual revenues, over half of which are generated outside of the United States, we believe our platform is differentiated by the scale, reach and broad appeal of our music. Our collection of owned and controlled recordings and musical compositions, spanning a large variety of genres and geographies over many decades, cannot be replicated. As one of three major music entertainment companies, our industry position remains strong and poised for continued growth. As reported in Music Business Worldwide, our global recorded music market share has increased every year from 2014 to 2018, growing from 14.3% to 16.3%. In addition, according to Nielsen, Atlantic Records was the No. 1 record label in the United States in 2017 and 2018, and is currently on track to be No. 1 for 2019.

Star-Making, Culture-Defining Core Capabilities. For decades, our A&R strategy of identifying and nurturing recording artists and songwriters with the talents to be successful has yielded an extensive catalog of iconic music across a wide breadth of musical genres and marquee brands all over the world. Our marketing and promotion departments provide a comprehensive suite of solutions that are specifically tailored to each of our recording artists and carefully coordinated to create the greatest sales momentum for new and catalog releases alike. The development of our vibrant roster of recording artists has been informed by our significant experience in being able to adapt to changes in consumer trends and sentiment over time. Our creative instincts yield custom strategies for each and every one of our recording artists, including, for example:

- Cardi B, whose first Atlantic Records single “Bodak Yellow” was a break-out hit that has been certified nine times Platinum in the United States by the Recording Industry Association of America or RIAA;
- Twenty One Pilots, whose rise to stardom accelerated with the release of their second Fueled by Ramen studio album, *Blurryface*; and
- Portugal. The Man, which celebrated its first entry on the *Billboard* Hot 100 chart after the release of their eighth studio album, *Woodstock*, featuring the track “Feel It Still.”

In addition, Warner Chappell Music boasts a diversified catalog of timeless classics together with an ever-growing group of contemporary songwriters who are actively contributing to today's top hits. We believe our longstanding reputation and relationships in the creative community, as well as our historical success in talent development and management, will continue to attract new recording artists and songwriters with staying power and market potential through the strength and scale of our proprietary capabilities.

Strong Financial Profile with Robust Growth and Operating Leverage. For fiscal year 2017 through fiscal year 2019, we have grown as-reported revenues at a CAGR of 12%, and on a constant-currency basis, at a CAGR of 10%, driven by secular tailwinds, organic reinvestment in A&R and strategic acquisitions. For our fiscal year 2019, our business generated net income and Consolidated EBITDA of $258 million and $737 million, respectively, implying Consolidated EBITDA margin of approximately 16%. We believe our financial profile provides a strong foundation for our continued growth.

Experienced Leadership Team and Committed Strategic Investor. Our management team has successfully designed and implemented our business strategy, delivering strong financial results, releasing an increasing flow of new music and establishing a dynamic culture of innovation. At the same time, our management team has driven an increase in operating margins and cash flow through an improved revenue mix to higher-margin digital platforms and overhead cost management, while maintaining financial flexibility to both organically invest in the business and pursue strategic acquisitions to diversify our revenue mix. Our Recorded Music and Music Publishing businesses are led by entrepreneurial and creative individuals with extensive experience in discovering and developing recording artists and songwriters and managing their creative output on a global scale. In addition, we have benefited, and expect to continue to benefit, from our acquisition by Access in July 2011, which has provided us with strategic direction, M&A and capital markets expertise and planning support to help us take full advantage of the ongoing transition in the music entertainment industry.

Expertise in Strategic Acquisitions and Investments That Extend Our Capabilities. Since 2011 when Access became our controlling shareholder, we have completed a number of strategic acquisitions. The acquisition of PLG in 2013 significantly strengthened our worldwide roster, global footprint and executive talent, particularly in Europe. In addition, we have made several smaller strategic acquisitions aimed at expanding our artist services capabilities in our Recorded Music business, including EMP, one of Europe's leading specialty music and entertainment merchandise e-tailers; Sodatone, a premier A&R insight tool; UPROXX, the youth culture and video production powerhouse; Spinnin' Records, one of the world's leading independent electronic music companies; and Songkick's concert discovery application. These transactions showcase the growing breadth of our platform across the music entertainment ecosystem and have increased our direct access to fans of our recording artists and songwriters. In addition to our commercial arrangements with digital music services, we opportunistically invest in some of those services as well as other companies in our industry, including minority equity stakes in Deezer, a French digital music service in which Access owns a controlling equity interest, and Tencent Music Entertainment Group, the leading online music entertainment platform in China. Acquiring and investing in businesses that are highly complementary to our existing portfolio further enables us to potentially derive incremental and new revenue streams from different business models in new markets.

Our Strategies

Attract, Develop and Retain Established and Emerging Recording Artists and Songwriters. A critical component of our global strategy is to produce an increasing flow of new music by finding, developing and retaining recording artists and songwriters who achieve long-term success. Since 2011, our annual new releases have grown significantly and our catalog of musical compositions has increased to over 1.4 million. 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 and songwriters who will generate meaningful revenues and increase the enduring value of our catalog. We have also made meaningful investments in technology to further expand our A&R capabilities in a rapidly changing music environment. In 2018, we acquired Sodatone, an advanced A&R tool that uses streaming, social and touring data to help track early predictors of success. When combined with the strength of our current ability to identify creative talent, we expect this to further enhance our ability to scout and sign breakthrough recording artists and songwriters. In addition, we anticipate that investment in or commercial relationships with technology companies will enable us to tailor our marketing efforts for established recording artists and songwriters by gaining valuable insight into consumer reactions to new releases. 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 the negotiation of our agreements with recording artists and songwriters.

Focus on Growth Markets to Position Us to Realize Upside from Incremental Penetration of Streaming. While the rapid growth of streaming has already transformed the music entertainment industry, streaming is still in relatively early stages, as significant opportunity remains in both developed markets and markets largely untapped by the adoption of paid streaming subscriptions. Some of our largest markets, such as the United States, Germany, United Kingdom and France, still lag Nordic countries in penetration of paid subscriptions and have room for future growth. In these markets, we will continue to increase our output of new releases and use data to more effectively target our marketing efforts. Less mature markets, such as China and Brazil, have large populations with relatively high smartphone penetration, and we are well placed to benefit from streaming tailwinds over the next several years with our local presence and extensive catalog.

Expand Global Presence with Investment in Local Music in Nascent Markets. We recognize that music is inherently local in nature, shaped by people and culture. According to IFPI, in 2018, at least seven of the top-selling singles in Brazil, India, Italy and South Korea were performed by or featured local artists. Similarly, in 2018, at least seven of the top-selling albums in France, Germany, Spain and Turkey were performed by or featured local artists. One of our vital business functions is to help our recording artists and songwriters solve the complexities associated with a fragmented, global market of mixed musical tastes. We have found that investment in local music provides the best opportunity to understand these nuances, and we have made it a strategic priority to seek out investment opportunities in emerging markets. For example, we opened an office in the Middle East and North Africa region to prepare for the forecasted rise in smartphone penetration and projected uptake in digital music. These investments are made with the purpose of increasing our understanding of local market dynamics and popularizing our current roster of recording artists and songwriters around the world.

Embrace Commercial Innovation with New Digital Distributors and Partners. We believe the growth of digital formats will continue to create new and powerful ways to distribute and monetize our music. We were the first major music company to strike landmark deals with important companies such as Apple, YouTube and Tencent Music Entertainment Group, as well as with pure-play music technology companies such as MixCloud, SoundCloud and Audiomack. We believe that the continued development of new digital channels for the consumption of music and increasing access to digital music services present significant promise and opportunity for the music entertainment industry. We are also focused on investing in emerging music technologies, demonstrated by our launch of WMG Boost, a seed-stage investment fund for start-ups in the music entertainment industry and through partnerships with entrepreneurial incubators such as TechStars. We intend to continue to extend our technological reach by executing deals with new partners and developing optimal business models that will enable us to monetize our music across various platforms, services and devices. We also intend to continue to support and invest in emerging technologies, including artificial intelligence, artificial reality, virtual reality, high-resolution audio, mobile messaging and other technologies to continue to build new revenue streams and position ourselves for long-term growth.

Pursue Acquisitions to Enhance Asset Portfolio and Long-Term Growth. We have successfully completed a number of strategic acquisitions, particularly in our Recorded Music business. Strengthening and expanding our global footprint provides us with insights on markets in which we can immediately capitalize on favorable industry trends, as evidenced by our acquisition of PLG in 2013. We also build upon our core competencies with additive and ancillary capabilities. For example, our acquisition of UPROXX, one of the most influential media brands for youth culture, not only provides a platform for short-form music and music-based video content production to market and promote our recording artists, but also includes sales capabilities to monetize advertising inventory on digital audio and video platforms. We plan to continue selectively pursuing acquisition opportunities while maintaining financial discipline to further improve our growth trajectory and drive operating efficiencies with increased free cash flow generation. With respect to our Music Publishing business, we have the opportunity to generate significant value by acquiring other music publishers and extracting cost savings (as acquired catalogs can be administered with little incremental cost), as well as by increasing revenues through more aggressive monetization efforts. We will also continue to evaluate opportunities to add to our catalog or acquire or make investments in companies engaged in businesses that we believe will help to advance our strategies.

Recorded Music (86%, 84% and 84% of consolidated revenues, before intersegment eliminations, for each of the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017, respectively)

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

In the United States, our Recorded Music business is conducted principally through our major record labels—Atlantic Records and Warner Records. In October 2018, we launched Elektra Music Group in the United States as a standalone label group, which comprises the Elektra, Fueled by Ramen and Roadrunner labels. Our Recorded Music business also includes Rhino Entertainment, a division that specializes in marketing our recorded music catalog through compilations, reissuances of previously released music and video titles and releasing previously unreleased material from our vault. We also conduct our Recorded Music

business through a collection of additional record labels including Asylum, Big Beat, Canvasback, East West, Erato, FFRR, Nonesuch, Parlophone, Reprise, Sire, Spinnin', Warner Classics and Warner Music Nashville.

Outside the United States, our Recorded Music business is conducted in more than 60 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, selling, marketing and promoting their music. In most cases, we also market, promote, distribute and sell the music of those recording artists for whom our domestic record labels have international rights. In certain smaller markets, we license the right to distribute and sell our music to non-affiliated third-party record labels.

Our Recorded Music business' distribution operations include WEA Corp., which markets, distributes and sells music and video products to retailers and wholesale distributors; Alternative Distribution Alliance ("ADA"), which markets, distributes and sells the products of independent labels to retail and wholesale distributors; and various distribution centers and ventures operated internationally.

In addition to our music being sold in physical retail outlets, our music is also sold in physical form to online physical retailers, such as Amazon.com, barnesandnoble.com and bestbuy.com, and distributed in digital form to an expanded universe of digital partners, including streaming services such as those of Amazon, Apple, Deezer, SoundCloud, Spotify, Tencent Music Entertainment Group and YouTube, radio services such as iHeart Radio and SiriusXM and download services such as Apple's iTunes and Google Play.

We have diversified our revenues beyond our traditional businesses by entering into expanded-rights deals with recording artists in order to partner with such artists in other aspects of their careers. Under these agreements, we provide services to and participate in recording artists' activities outside the traditional recorded music business such as touring, merchandising and sponsorships. We have built and acquired artist services capabilities and platforms for marketing and distributing 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 merchandising, VIP ticketing, fan clubs, 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 our recording artists and allows us to more effectively connect recording 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 recording 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 recording 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 United States, our major record labels identify potentially successful recording artists, sign them to recording contracts, collaborate with them to develop recordings of their work and market and sell or license these finished recordings to legitimate digital channels and retail stores. Increasingly, we are also expanding our participation in image and brand rights associated with artists, including merchandising and sponsorships. 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 subsidiaries, affiliates and non-affiliated licensees in more than 60 countries. With a roster of local recording 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 music. We have an efficient process for sustaining sales across our catalog releases. Relative to our new releases, we spend lesser amounts on marketing for our catalog.

We maximize the value of our catalog of recorded music through our Rhino Entertainment 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 music and recording artists. Rhino Entertainment also releases new music from legacy recording artists and markets and promotes the name and likeness of certain artist estates and brands.

Recording Artists' Contracts

Our recording artists' contracts define the commercial relationship between our recording artists and our record labels. We negotiate recording contracts with recording artists that define our rights to use the recording artists' music. In accordance with the terms of the contract, the recording artists receive royalties based on sales and other uses of such recording artists' music. We customarily provide up-front payments to recording artists called advances, which are recoupable by us from future royalties otherwise payable to such recording artists. We also typically pay costs associated with the recording and production of music, which in certain countries are treated as advances recoupable by us from future royalties. Our typical contract for a new recording artist covers a sufficient number of master recordings to constitute a single initial extended-play record (known as an EP) or an 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 recording contracts with established artists generally provide for greater advances and higher royalty rates. Typically, such contracts entitle us to fewer albums, and, of those, fewer are optional albums. In contrast to new artists' contracts, which customarily 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 contracts, sometimes in return for an increase in the number of albums that the artist is required to deliver.

With certain territorial or other exceptions, our recording contracts typically grant us ownership for the duration of copyright. See "—Intellectual Property—Copyrights." United States copyright law permits authors or their estates to terminate an assignment or license of copyright (for the United States only) after a set period of time in certain circumstances. See "Risk Factors—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."

We are also continuing to transition to other forms of business models with recording artists to adapt to changing industry conditions. Many of the recording contracts we currently enter into are expanded-rights deals, in which we share in the touring, merchandising, sponsorship, fan club or other ancillary music revenues associated with those artists.

Marketing and Promotion

Our approach to marketing and promoting our recording artists and their music 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 increase the value of music and help our recording artists connect with their fans.

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 sales reports, streaming service data and radio airplay data, so that a promotion plan can be quickly adjusted if necessary.

Manufacturing, Packaging and Physical Distribution

We have arrangements with various suppliers and distributors as part of our manufacturing, packaging and physical distribution services throughout the world. In 2019, we switched to a new U.S. physical distribution supplier, which increased the supplier's volume and has led to delays and other inventory issues. We believe that our manufacturing, packaging and physical distribution arrangements are sufficient to meet our business needs.

Sales and Digital Distribution

We generate revenues 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 revenues are generated in digital formats including streaming and downloads, CD format, as well as through historical formats, such as vinyl albums.

In connection with the digital distribution of our music, we currently partner with a broad range of digital music services, such as Amazon, Apple, Deezer, KKBox, Spotify, Telefonica, Tencent Music Entertainment Group, YouTube and Google, and are actively seeking to develop and grow our digital business. We also sell 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. Streaming services stream our music on an ad-supported or paid subscription basis. In addition, downloading services download our music on a per-album or per-track basis. 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 license digital products, it is reasonable to expect that we will generally derive a higher contribution margin from streaming and downloads than from physical sales. 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.

Most of our physical sales represent purchases by a wholesale or retail distributor. Our sale and return policies are in accordance with wholesaler 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 by monitoring shipments and sell-through data.

We enter into license agreements with digital music services to make our music available for access in digital formats (e.g., streaming and downloads). We then provide digital assets for our music to these services in an accessible form. Our license agreements with these services establish our fees for the distribution of our music, which vary based on the service. We typically receive accounting from these services on a monthly basis, detailing the distribution activity, with payments rendered on a monthly basis. Our license agreements with digital music services generally last one to three years. In fiscal year 2019, Recorded Music revenue earned under license agreements with our top two digital music accounts, Apple and Spotify, accounted for approximately 30% of our total revenues.

Since the emergence of digital formats, our business has become less seasonal in nature and driven more by the timing of our releases.

Music Publishing (14%, 16% and 16% of consolidated revenues, before intersegment eliminations, for each of the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017, respectively)

While Recorded Music is focused on marketing, promoting, distributing and licensing a particular recording of a musical composition, Music Publishing is an intellectual property business focused on generating revenue from uses of the musical 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 musical compositions.

The operations of our Music Publishing business are conducted principally through Warner Chappell Music, our global music publishing company headquartered in Los Angeles with operations in over 60 countries through various subsidiaries, affiliates and non-affiliated licensees. We own or control rights to more than 1.4 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 80,000 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 and gospel. Warner Chappell Music also administers the music and soundtracks of several third-party television and film producers and studios. We have an extensive production music catalog collectively branded as Warner Chappell Production Music.

Music Publishing Royalties

Warner Chappell Music, as a copyright owner and administrator of musical compositions, is entitled to receive royalties for the use of musical compositions. We continually add new musical compositions to our catalog and seek to acquire rights in musical compositions that will generate substantial revenue over the long term.

Music publishers generally receive royalties pursuant to public performance, digital, mechanical, synchronization and other licenses. In the United States, music publishers collect and administer mechanical royalties, and statutory rates are established pursuant to the U.S. Copyright Act of 1976, as amended, for the royalty rates applicable to musical compositions for sale and licensing of recordings embodying those musical compositions. In the United States, public performance income is administered and collected by music publishers and their performing rights organizations and in most countries outside the United States, 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 Music acquires copyrights or portions of copyrights and administration rights from songwriters or other third-party holders of rights in musical compositions. Typically, in either case, the grantor of rights retains a right to receive a percentage of revenues collected by Warner Chappell Music. As an owner and administrator of musical compositions, we promote the use of those musical compositions by others. For example, we encourage recording artists to record and include our musical compositions on their recordings, offer opportunities to include our musical compositions in filmed entertainment, advertisements and digital media and advocate for the use of our musical compositions in live stage productions. Examples of music uses that generate music publishing revenues include:

Performance: performance of the song to the general public

- Broadcast of musical compositions on television, radio and cable
- Live performance at a concert or other venue (e.g., arena concerts, nightclubs)
- Broadcast of musical compositions at sporting events, restaurants or bars
- Performance of musical compositions in staged theatrical productions

Digital: licensing of recorded music in various digital formats and digital performance of musical compositions to the general public

- Streaming and download services

Mechanical: sale of recorded music in various physical formats

- Vinyl, CDs and DVDs

Synchronization: use of the musical composition in combination with visual images

- Films or television programs
- Television commercials
- Video games
- Merchandising, toys or novelty items

Other:

- Licensing of copyrights for use in printed sheet music

In the United States, mechanical royalties are collected directly by music publishers, from recorded music companies or via The Harry Fox Agency, a non-exclusive licensing agent affiliated with the Society of European Stage Authors and Composers (“SESAC”), while outside the United States, mechanical royalties are collected directly by music publishers or from collecting societies. Once mechanical royalties reach the publisher, 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 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). 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 contracts 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, 2022. In most other territories, mechanical royalties are based on a percentage of wholesale prices for physical formats and based on a percentage of consumer prices for digital formats. In international markets, these rates are determined by multi-year collective bargaining agreements and rate tribunals.

Throughout the world, performance royalties are collected by publishers directly or on behalf of music publishers and songwriters by performance rights organizations and collecting societies. Key performing rights organizations and collecting societies include: The American Society of Composers, Authors and Publishers ("ASCAP"), SESAC and Broadcast Music, Inc. ("BMI") in the United States; Mechanical-Copyright Protection Society and The Performing Right Society in the United Kingdom; The German Copyright Society in Germany and the Japanese Society for Rights of Authors, Composers and Publishers in Japan. 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.

Composers' and Lyricists' Contracts

Warner Chappell Music derives its rights through contracts with composers, 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 Music rights to administer musical compositions for a period of time without conveying a copyright ownership interest. Our contracts grant us exclusive use rights in the territories concerned excepting any pre-existing arrangements. Many of our contracts grant us rights on a global basis. Warner Chappell Music customarily possesses administration rights for every musical composition created by the writer or composer during the exclusive acquisition term of the contract.

While the duration of the administration rights under contracts may vary, some 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 United States only) after a set period of time. See "Risk Factors—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."

Our Recording Artist and Songwriter Value Proposition

Over the last five years, we have outperformed in a highly competitive market. For example, since January 2017, our recording artists have received more U.S. Gold and Platinum certifications from the RIAA for debut albums than those of any other company. Our success is a function of attracting exceptional talent and helping them build long and lucrative careers. In an environment where music entertainment companies often fiercely compete to sign recording artists and songwriters, our ability to differentiate our core capabilities is crucial. We are constantly strengthening our skill sets, as well as evolving and expanding the comprehensive suite of services we provide. Our goal is not to be the biggest music entertainment company, but the best.

In the digital world, consumers have more than 50 million tracks at their fingertips, growing at a rate of approximately 40,000 songs per day. The sheer volume of music being released on digital music services is making it harder for recording artists and songwriters to stand out and get noticed. At the same time, music that is fresh and original is currently what resonates most strongly on digital music services. We believe our Recorded Music and Music Publishing businesses remain not just relevant, but essential to the booming music entertainment economy. Our proven ability to cut through the noise is more necessary and valuable than ever.

Below is an overview of the many creative and commercial services we provide our recording artists and songwriters. Our interests are aligned with theirs. By creating value for our recording artists and songwriters, we create value for ourselves. That philosophy is behind our current momentum, and we believe it will continue to propel our business into the future.

Welcoming Talent

We offer recording artists and songwriters numerous pathways into our ecosystem. Whether it is an up-and-coming songwriter making music in his or her bedroom, a breakout superstar recording artist selling out stadiums or an icon looking to curate a legacy, we offer the necessary support and resources.

We are not just searching for immediate hits. We scout and sign talent with the market potential for longevity and lasting impact. As a result, we are investing in more new music every year without losing our commitment to each recording artist and songwriter. It is that focus, patience and passion that has built and sustained the reputation that perpetuates our cycle of success.

Creative Partnership

Our A&R executives both champion and challenge the talent they sign, empowering them to realize their visions and evolve over time. Our longstanding relationships within the creative community also provide our recording artists and songwriters with a wide network of collaborators, which is a vital part of helping them to realize their best work. We provide the investment that gives

our recording artists and songwriters the requisite time and space to experiment and flourish. This includes access to a multitude of songwriters' rooms and recording studios around the globe with more to come.

Marketing and Promotional Firepower

We are experts in the art of amplification, with proven specialties in every aspect of marketing and promotion. From every meaningful digital music service and social media network to radio, press, film, television and retail, we are plugged into the most influential people and platforms for music entertainment. At the same time, by combining our collective experience with billions of transactions each and every week, we gather the insights needed to make meaningful commercial decisions grounded in data-based discipline. Most importantly, we quickly adapt to changes in how music is consumed to maximize the opportunities for our recording artists and songwriters. For example, we quickly honed our expertise in securing placement on playlists and other valuable positioning on digital music services.

Global Reach and Local Expertise

As of September 30, 2019, we employed approximately 5,400 persons around the world. This means we can build local fan bases for international recording artists and songwriters, as well as supply the network to deliver worldwide fame. Our local strength fuels our global impact and vice versa. We employ a global priority system to provide as many recording artists as possible a genuine shot at success. Our approach combines a deep understanding of local cultures, with a close-knit, nimble team that is in constant communication around the world.

A Broad Universe of Opportunity

Albums, singles, videos and songs are still the primary drivers for our business. But as the demand for music has grown, music has been woven into the fabric of our daily lives in new and increasingly sophisticated ways. It is our job to help our recording artists and songwriters capitalize on this expanding universe.

In our Recorded Music business, beyond digital and physical revenue streams, we provide a wide array of artist services, including merchandise, e-commerce, VIP ticketing and fan clubs. In our Music Publishing business, we take an active role in expanding the consumption of music, through performance, digital, mechanical, synchronization and, the original music publishing revenue stream, sheet music. Last year, we launched a creative services team that is tasked with finding innovative ways to revitalize catalogs and create new possibilities for our songwriters.

In 2017, we launched a film and television unit and subsequently acquired additional video production capabilities in order to offer greater storytelling possibilities for our recording artists and songwriters.

The centralization of our technology capabilities and data insights has resulted in increased transparency of our royalty reporting to our recording artists and songwriters. We defend and protect our recording artists' and songwriters' creative output by remaining vigilant in the collection of different types of royalties around the world and defending against illegitimate and illegal uses of our owned and controlled copyrights.

Representative Sample of Recording Artists and Songwriters

Our Recorded Music business includes music from:

- Global superstars such as Ed Sheeran, Bruno Mars, Michael Bublé, Cardi B, Kelly Clarkson, Coldplay, David Guetta, Dua Lipa, Neil Young, Prince, Pink Floyd, David Bowie, Phil Collins, Fleetwood Mac, Tom Petty and The Smiths.
- Next-generation talent including A Boogie wit da Hoodie, Charli XCX, Lizzo and Bebe Rexha.
- International stars such as Anitta, Aya Nakamura, TWICE, Christopher, Udo Lindenberg and Laura Pausini.

Our Music Publishing business includes musical compositions by:

- Superstars such as Stormzy, Twenty One Pilots, Green Day, Katy Perry, George Michael, Chris Stapleton, Damon Albarn, Dave Mustaine and Kacey Musgraves.
- International talent such as Jonathan Lee, Tia Ray, Manuel Medrano, Melendi, Bausa, Shy'm, Tove Lo and Jack & Coke.
- Songwriting icons like Brody Brown, Liz Rose, Justin Tranter, busbee, The-Dream, Dr. Dre, Stephen Sondheim, George & Ira Gershwin and Gamble & Huff.

Competition

In our Recorded Music and Music Publishing businesses, we compete based on marketing (including both how we allocate our marketing resources as well as how much we spend on a dollar basis) and on recording artist and songwriter 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. 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, motion pictures and video games in physical and digital formats.

The recorded music industry is highly competitive based on consumer preferences and is rapidly changing. At its core, the recorded music business relies on artistic talent. As such, competitive strength is predicated upon the ability to continually develop and market new recording artists whose work gains commercial acceptance. According to Music and Copyright, in 2018, the three largest recorded music companies were Universal Music Group, Sony Music Entertainment and us, which collectively accounted for 67% of global recorded music revenues. There are many mid-sized and smaller players in the industry that accounted for the remaining 33%, including independent recorded music companies. Universal Music Group was the market leader with a 30% global market share in 2018 after absorbing the bulk of the recorded music assets of the former EMI in late 2012, followed by Sony Music Entertainment with a 21% share. We held a 16% share of global recorded music revenues in 2018.

The music publishing industry is also highly competitive. The three largest music publishing companies collectively accounted for 58% of the global market in 2018 according to Music & Copyright. According to Music & Copyright, Sony/ATV was the market leader in music publishing in 2018 with a 26% share (reflecting its administration of the EMI music publishing assets). Universal Music Publishing was the second-largest music publisher with a 20% share, followed by us at 12%. There are many mid-sized and smaller players in the industry that account for the remaining 42%, including many individual songwriters who publish their own works.

Intellectual Property

Copyrights

Our business, like that of other companies involved in the music entertainment industry, rests on our ability to maintain rights in sound recordings and musical compositions through copyright protection. In the United States, 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 United States prior to January 1, 1978 generally enjoy copyright protection for 95 years, subject to compliance with certain statutory provisions including notice and renewal. Additionally, the MMA extended federal copyright protection in the U.S. to sound recordings created prior to February 15, 1972. The duration of copyright protection for such sound recordings varies based on the year of publication, with all such sound recordings receiving copyright protection for at least 95 years, and sound recordings published between January 1, 1957 and February 15, 1972 receiving copyright protection until February 15, 2067. The term of copyright in the European Union, or 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 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 musical composition.

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 intellectual property receives 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 RIAA, IFPI, National Music Publishers’ Association, International Confederation of Music Publishers and the World Intellectual Property Organization.

Trademarks

We consider our trademarks to be valuable assets to our business. Although we cannot assure you that our trademark applications, even for major trademarks, will be approved, 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 Asylum, Atlantic, Elektra, EMP, Parlophone, Reprise, Rhino, Sire, Spinnin', Warner Chappell and WEA, and their respective logos. We also use certain trademarks pursuant to a royalty-free license agreement. The duration of the license relating to the WARNER, WARNER MUSIC and WARNER RECORDS marks and "W" logo is perpetual. The license may be terminated under certain limited circumstances, including our material breach of the license agreement and certain events of insolvency. We actively monitor and protect against activities that might infringe, dilute or otherwise harm our trademarks. However, the actions we take to protect our trademarks may not be adequate to prevent third parties from infringing, diluting, or otherwise harming our trademarks, and the laws of foreign countries may not protect our trademark rights to the same extent as do the laws of the United States.

Joint Ventures

We have entered into joint venture arrangements pursuant to which we or our various subsidiary companies distribute, market, promote, license and sell (in most cases, domestically and internationally) recordings and other rights 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, 2019, we employed approximately 5,400 persons worldwide, including temporary and part-time employees as well as employees that were added with the acquisition of EMP. As of such date, none of our employees in the United States were subject to a collective bargaining agreement, although certain employees in our non-domestic companies were covered by national labor agreements. We believe that our relationship with our employees is good.

INDUSTRY OVERVIEW

The music entertainment industry is large, global and vibrant. The recorded music and music publishing industries are growing, driven by consumer and demographic trends in the digital consumption of music.

Consumer Trends and Demographics

Consumers today engage with music in more ways than ever. According to IFPI, global consumers spent 18 hours listening to music each week in 2019. Demographic trends and smartphone penetration have been key factors in driving growth in consumer engagement. Younger consumers typically are early adopters of new technologies, including music-enabled devices. According to Nielsen, in 2019, 58% of teens in the United States between the ages of 13 and 17 and 45% of millennials in the United States between the ages of 18 and 34 used their smartphones to listen to music on a weekly basis, as compared to a 40% average for all U.S. consumers. Furthermore, in 2019, U.S. teens and millennials listened to an average of 32.6 and 29.7 hours of music each week, respectively, above the 26.9 hours for all U.S. consumers.

Members of older demographic groups are also increasing their music engagement. According to an IFPI survey of 19 leading geographic markets, 54% of 35- to 64-year-olds used a streaming service to listen to music in the past month in 2019, representing an increase from 46% in 2018, which was the highest rate of growth for use of streaming services across all age groups.

Music permeates our culture across age groups, as evidenced by the footprint that music has across social media. According to RIAA, as of September 2019, 7 out of the top 10 most followed accounts on Twitter belong to musicians, and according to YouTube, the majority of videos that have achieved more than one billion lifetime views as well as the top 10 most watched videos of all time, belong to musicians.

Recorded Music

The recorded music industry generated $19.1 billion in global revenue in 2018 and has consistently grown since 2015, according to IFPI. IFPI measures the recorded music industry based on four revenue categories: digital (including streaming), physical, synchronization and performance rights. Digital is the largest, generating $11.2 billion of revenue in 2018, representing 59% of global recorded music revenue. Within digital, streaming generated approximately 80% of revenue, or $8.9 billion, with the remainder of digital revenue coming from other formats such as downloads. Overall, digital grew by 20% in 2018, with streaming increasing by 33%.

Physical represented approximately 25% of global recorded music revenue in 2018, with growth in formats such as vinyl partially offsetting declines in CD sales. Performance rights revenue represents the use of recorded music by broadcasters and public venues, and represented 14% of global recorded music revenue in 2018. Synchronization revenue is generated from the use of recorded music in advertising, film, video games and television content, and represented 2% of global recorded music revenue in 2018. According to IFPI, global recorded music revenue has grown at a 9% CAGR since 2015, with growth accelerating to 10% in 2018 from 7% in 2017.

We believe the following secular trends will continue to drive growth in the recorded music industry:

Streaming Still in Early Stages of Global Adoption and Penetration

According to IFPI, global paid music streaming subscribers totaled 255 million at the end of 2018. While this represents an increase of 45% from 176 million in 2017, it still represents less than 8% of the 3.2 billion smartphone users globally, according to Newzoo. It also represents a small fraction of the user bases for large, globally scaled digital services such as Facebook, which reported 2.7 billion monthly users across its services as of July 2019, and YouTube, which reported two billion unique monthly users as of May 2019. On-demand streaming (both audio and video) is on pace to exceed one trillion streams in the United States in 2019, according to Nielsen, and this growth is expected to continue.

The potential of global paid streaming subscriber growth is demonstrated by the penetration rates in early adopter markets. Approximately 30% of the population in Sweden, where Spotify was founded, was estimated to be paid music subscribers in 2018, according to MIDiA. This compares to approximately 25% and 16% for established markets such as the United States and Germany, respectively. Moreover, paid digital music subscribers in Japan, the world's second-largest recorded music market in 2018 according to IFPI, still only represented approximately 7% of the population, according to MIDiA. There also remains substantial opportunity in emerging markets, such as Brazil and India, where smartphone penetration is low compared to developed markets. For example, according to Newzoo, smartphone penetration for Brazil and India as of September 2019 was 46% and 25%, respectively, compared to 79% in the United States.

China, in particular, represents a substantial growth market for the recorded music industry. According to IFPI, paid streaming models are at an early stage in China, with an estimated 33 million paid subscribers in 2018, representing only 2% of China's population of over 1.4 billion. Despite its substantial population, China was the world's seventh-largest music market in 2018, having only broken into the top 10 in 2017.

Opportunities for Improved Streaming Pricing

In addition to paid subscriber growth, we believe that, over time, streaming revenues will increase due to pricing increases as the broader market further develops. Streaming services are already at the early stages of experimenting with price increases. For example, in 2018, Spotify increased monthly prices for its service in Norway. In addition, in 2019, Amazon launched Amazon Music HD, a high-quality audio streaming offering that is available to customers at a premium price in the United States. We believe the value proposition that streaming provides to consumers supports premium product initiatives.

Technology Enables Innovation and Presents Additional Opportunities

Technological innovation has helped facilitate the penetration of music listening across locations, including homes, offices and cars, as well as across devices, including smartphones, tablets, wearables, digital dashboards, gaming consoles and smart speakers. These technologies represent advancements that are deepening listener engagement and driving further growth in music consumption.

Device Innovation. According to Nielsen, as of August 2019, U.S. consumers listened to music across an average of 4.1 devices per week. We believe that the use of multiple devices is expanding listening hours by bringing music into more moments of consumers' lives, and the different uses these devices enable are also broadening the base of music to which consumers are exposed. The music that consumers listen to during a commute may be different than the music they listen to while they exercise, and different still than the music they play through a smart speaker while cooking a meal. Smart speakers enable consumers to access music more readily by using their voices. According to PwC, smart speaker ownership is expected to increase at a 38% CAGR from 2018 through 2023, to 440 million devices globally in 2023. The adoption of smart speakers in the United States has been strong, and according to Nielsen, 31% of music listeners today own smart speakers. Smart speakers are fueling further growth in streaming, by converting more casual listeners into paid subscribers, drawn in by music as a critical application for these devices. According to Nielsen, 61% of U.S. consumers who use a smart speaker weekly to listen to music currently pay for a subscription as well.

Format and Monetization Model Innovation. Short-form music and music-based video content has grown rapidly, driven by the growth of global social video applications such as TikTok, which features 15-second videos often set to music. TikTok has reportedly been downloaded more than one billion times since its launch in 2017 and has a global reach of 500 million users, according to

Nielsen. Such applications have the potential for mass adoption, illustrating the opportunity for additional platforms of scale to be created to the benefit of the music entertainment industry. These platforms enable incremental consumption of music appealing to varied, and often younger, audiences. From a recording artist's perspective, these platforms have the potential to rewrite the path to stardom. For example, our recording artist, Fitz & the Tantrums, an American band, rose to international fame in 2018 as their song "HandClap" went viral in Asia on TikTok. Fitz & the Tantrums quickly topped the international music charts in South Korea and surpassed one billion streams in China. Short-form music and music-based video content have also become increasingly popular on social media platforms such as Facebook and Instagram, further illustrating the growing number of potential pathways through which recording artists may gain consumer exposure.

Music Publishing

According to Music & Copyright, the music publishing industry generated $5.5 billion in global revenue in 2018, representing an 11% increase from $4.9 billion in the prior year. Music publishing involves the acquisition of rights to, and the licensing of, musical compositions (as opposed to sound recordings) from songwriters, composers or other rightsholders. Music publishing revenues are derived from four main royalty sources: mechanical, performance, synchronization and digital. Digital represents the largest and fastest-growing component of industry revenues, while performance represents the second-largest component of industry revenues. Mechanical revenues from traditional physical music formats (e.g., CDs, DVDs, downloads) have continued to fall while performance revenues and digital revenues have grown to offset this decline.

Positive Regulatory Trends

The music industry has benefitted from positive regulatory developments in recent years, which are expected to lead to increased revenues for the music entertainment industry in the coming years.

Music Modernization Act ("MMA"). In 2018, the passing of the MMA in the United States resulted in major reforms to music licensing. The MMA improves the way digital music services obtain mechanical licenses for musical compositions, requires the payment of royalties to recording artists for pre-1972 sound recordings streamed on digital radio services such as SiriusXM and Pandora and provides for direct payments of royalties owed to producers, mixers and engineers when their original works are streamed on non-interactive webcasting services.

C*opyright Royalty Board ("CRB").* In 2018, the CRB issued its determination of royalty rates and terms, significantly increasing the mechanical royalty rates paid for musical compositions in the United States from 2018 through 2022. That decision is currently being appealed by some digital music services. In 2018, the CRB issued its determination of royalty rates and terms, significantly increasing the royalty rates paid for sound recordings in the United States by SiriusXM from 2018 through 2022, and the MMA extended that increase through 2027.

European Union Copyright Directive. In 2019, the E.U. passed legislation which will reign in safe harbors from liability for copyright infringement and rebalance the online marketplace to ensure that rightsholders and recording artists are remunerated fairly when their music is shared online by user-uploaded content services such as YouTube.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Annual Report, 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. This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results and the timing of events could differ materially from those projected in forward-looking statements due to a number of factors, including those set forth below and elsewhere in this Annual Report. See "Special Note Regarding Forward-Looking Statements" following this Item 1A. Risk Factors.

Risks Related to Our Business

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 entertainment companies and are driven by consumer preferences that are rapidly changing. Additionally, they require substantial human and capital resources. We compete with other recorded music companies and music publishing companies to identify and sign new recording artists and songwriters with the potential to achieve long-term success and to enter into and renew agreements with established recording artists and songwriters. In addition, our competitors may from time to time increase the amounts they spend to discover, or to market and promote, recording artists and songwriters or reduce the prices of their music 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 music offered by our competitors. Our Recorded Music business competes not only with other recorded music companies, but also with recording artists who may choose to distribute their own works (which has become more practicable as music is distributed online rather than physically) and companies in other industries (such as Spotify) that may choose to sign direct deals with recording artists or recorded music companies. Our Music Publishing business competes not only with other music publishing companies, but also with songwriters who publish their own works and companies in other industries that may choose to sign direct deals with songwriters or music publishing companies. 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 file sharing, by an inability to enforce our intellectual property rights in digital environments and by a failure to further 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 video games in physical and digital formats.

Our prospects and financial results may be adversely affected if we fail to identify, sign and retain recording artists and songwriters and by the existence or absence of superstar releases.

We are dependent on identifying, signing and retaining recording artists with long-term potential, whose debut music is well received on release, whose subsequent music is 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 and otherwise market and promote music 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 recording artists and songwriters whose work can achieve a high degree of public acceptance and who can timely deliver their music to us. Our financial results may be adversely affected if we are unable to identify, sign and retain such recording artists and songwriters under terms that are economically attractive to us. Our financial results may also be affected by the existence or absence of superstar recording artist releases during a particular period. Some music entertainment industry observers believe that the number of superstar recording 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 appeal of our recorded music and music publishing catalogs to consumers.

If streaming adoption or revenues grows less rapidly or levels off, our prospects and our results of operations may be adversely affected.

Streaming revenues are important because they have offset declines in downloads and physical sales and represent a growing area of our Recorded Music business. According to IFPI, streaming revenues, which includes revenues from ad-supported and subscription services, accounted for approximately 80% of digital revenues in 2018, up approximately 10% year-over-year. There can be no assurance that this growth pattern will persist or that digital revenues will continue to grow at a rate sufficient to offset and exceed declines in downloads and physical sales. If growth in streaming revenues levels off or fails to grow as quickly as it has over the past several years, our Recorded Music business may experience reduced levels of revenues and operating income. Additionally, slower growth in streaming adoption or revenues is also likely to have a negative impact on our Music Publishing business, which generates a significant portion of its revenues from sales and other uses of recorded music.

We are substantially dependent on a limited number of digital music services for the online distribution and marketing of our music, and they are able to significantly influence the pricing structure for online music stores and may not correctly calculate royalties under license agreements.

We derive an increasing portion of our revenues from the licensing of music through digital distribution channels. We are currently dependent on a small number of leading digital music services. In fiscal year 2019, revenue earned under our license agreements with our top two digital music accounts, Apple and Spotify, accounted for approximately 27% of our total revenues. We have limited ability to increase our wholesale prices to digital music services as a small number of digital music services control much of the legitimate digital music business. If these services were to adopt a lower pricing model or if there were structural changes to other pricing models, we could receive substantially less for our music, which could cause a material reduction in our revenues, unless offset by a corresponding increase in the number of transactions. We currently enter into short-term license agreements with many digital music services and provide our music on an at-will basis to others. There can be no assurance that we will be able to renew or enter into new license agreements with any digital music service. The terms of these license agreements, including the royalty rates that we receive pursuant to them, may change as a result of changes in our bargaining power, changes in the industry, changes in the law, or for other reasons. Decreases in royalty rates, rates of revenue sharing or changes to other terms of these license agreements may materially impact our business, operating results and financial condition. Digital music services generally accept and make available all of the music that we 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 entertainment companies like us, our revenues could be significantly reduced. See “Business—Recorded Music—Sales and Digital Distribution.”

We are also substantially dependent on a limited number of digital music services for the marketing of our music. A significant proportion of the music streamed on digital music services is from playlists curated by those services or generated from those services’ algorithms. If these services were to fail to include our music on playlists, change the position of our music on playlists or give us less marketing space, it could adversely affect our business, operating results and financial condition.

Under our license agreements and relevant statutes, we receive royalties from digital music services in order to stream or otherwise offer our music. The determination of the amount and timing of such payments is complex and subject to a number of variables, including the revenue generated, the type of music offered and the country in which it is sold, identification of the appropriate licensor, and the service tier on which music is made available. As a result, we may not be paid appropriately for our music. Failure to be accurately paid our royalties may adversely affect our business, operating results and financial condition.

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 is designed to provide a significant degree of diversification. However, our music does not necessarily enjoy universal appeal and if it does not continue to appeal in various countries, our results of operations could be adversely impacted. 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;
- global economic and retail environment;
- 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, or at all. For example, our results of operations could be impacted by fluctuations 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 profitable operations in various 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 country-specific trends, developments or other events will not have a significant adverse effect on our business, results of operations or financial condition. Unfavorable conditions can depress revenues in any given market and prompt promotional or other actions that adversely affect our margins.

Unfavorable currency exchange rate fluctuations could adversely affect our results of operations.

As we continue to expand our international operations, we become increasingly exposed to the effects of fluctuations in currency exchange rates. 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, 56% of our revenues related to operations in foreign territories for the fiscal year ended September 30, 2019. 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. However, these hedging strategies should not be expected to fully eliminate the foreign exchange rate risk to which we are exposed.

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, 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 entertainment business by continuing to capitalize on digital distribution and emerging technologies, entering into expanded-rights deals with recording artists and by operating our artist services businesses.

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.

Due to the nature of our business, our results of operations and cash flows may fluctuate significantly from period to period.

Our results of operations are affected by the amount and quality of music that we release, the number of releases 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 results of operations and operating cash flows. The timing of 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. In addition, certain of our license agreements with digital music services contain minimum guarantees and/or require that we are paid minimum guarantee payments. Our results of operations and cash flows in any reporting period may be materially affected by the timing of releases and advance payments and minimum guarantees, which may result in significant fluctuations from period to period. In addition, in 2013, we adopted a senior executive incentive compensation program (the "Plan") that pays annual bonuses to certain executives based on our free cash flow and offers participants the opportunity to share in appreciation of our common stock. As the valuation of our common stock fluctuates, this may also result in fluctuations in our operating results from period to period and cash flows, as payments are eligible to be made related to the equity portion of the Plan.

Our ability to operate effectively could be impaired if we fail to attract and retain our executive officers.

We compete with other music entertainment companies and other companies for top talent, including 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. Only some of our executive officers have employment agreements. In fiscal year 2019, we did not have an employment agreement with our CEO. Our CEO and certain of our executive officers are participants in the Plan. The loss of the services of any of our executive officers or the failure to attract and retain other executive officers could have a material adverse effect on our business or our business prospects.

A significant portion of our revenues are subject to rate regulation either by government entities or by local third-party collecting 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 two of the main 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 every five years pursuant to an administrative process under the U.S. Copyright Act, unless rates are determined through industry negotiations, and performance royalty rates are determined by negotiations with performing rights societies, the largest of which, ASCAP and BMI, are subject to a consent decree rate-setting process if negotiations are unsuccessful. In June 2019, the Antitrust Division of the Department of Justice opened a review of its consent decrees with ASCAP and BMI to determine whether the decrees should be maintained in their current form, modified or terminated. 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 formats. 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 and performance 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 webcasting and satellite radio are set every five years by an administrative process under the U.S. Copyright Act unless rates are determined through industry negotiations. It is important as revenues continue to 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. The rates set for recorded music and music publishing income sources through collecting societies or legally prescribed rate-setting processes could have a material adverse impact on our business prospects.

Failure to obtain, maintain, protect and enforce our intellectual property rights could substantially harm our business, operating results and financial condition.

The success of our business depends on our ability to obtain, maintain, protect and enforce our trademarks, copyrights and other intellectual property rights. The measures that we take to obtain, maintain, protect and enforce our intellectual property rights, including, if necessary, litigation or proceedings before governmental authorities and administrative bodies, may be ineffective, expensive and time-consuming and, despite such measures, third parties may be able to obtain and use our intellectual property rights without our permission. Additionally, changes in law may be implemented, or changes in interpretation of such laws may occur, that may affect our ability to obtain, maintain, protect or enforce our intellectual property rights. Failure to obtain, maintain, protect or enforce our intellectual property rights could harm our brand or brand recognition and adversely affect our business, financial condition and results of operation.

We also in-license certain major trademarks from third parties, including the WARNER, WARNER MUSIC and WARNER RECORDS trademarks and the "W" logo, pursuant to a perpetual, royalty-free license agreement that may be terminated by the licensor under certain circumstances, including our material breach of the license agreement and certain events of insolvency. Upon any such termination, we may be required to either negotiate a new or reinstated agreement with less favorable terms or otherwise lose our rights to use the licensed trademarks, which may require us to change our corporate name and undergo other significant rebranding efforts. Any such rebranding efforts may be disruptive to our business operations, require us to incur significant expenses and have an adverse effect on our business, financial condition and results of operation.

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, misappropriate or otherwise violate 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 and whether the claim is settled out of court or determined in our favor. 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 using certain intellectual property or technologies. Any of the foregoing may adversely affect our business.

Digital piracy continues to adversely impact our business.

A substantial portion of our revenue comes from the distribution of music which is potentially subject to unauthorized consumer copying and widespread digital dissemination without an economic return to us, including as a result of "stream-ripping." In its Music Listening 2019 report, IFPI surveyed 34,000 Internet users to examine the ways in which music consumers aged 16 to 64 engage with recorded music across 21 countries. Of those surveyed, 23% used illegal stream-ripping services, the leading form of music piracy. Organized industrial piracy may also lead to decreased revenues. The impact of digital piracy on legitimate music revenues and subscriptions is hard to quantify, but we believe that illegal file sharing and other forms of unauthorized activity, including stream manipulation, have a substantial negative impact on music revenues. 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 and enforcing our intellectual property (whether copyrights or other intellectual property rights such as patents, trademarks and trade secrets) or our music entertainment-related products or services, our results of operations, financial position and prospects may suffer.

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, 2019, we had $1.761 billion of goodwill and $151 million of indefinite-lived intangible assets. Financial Accounting Standards Board ("FASB") 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 entertainment industry. We performed an annual assessment, at July 1, 2019, of the recoverability of our goodwill and indefinite-lived intangibles as of September 30, 2019, 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 $1.723 billion of definite-lived intangible assets as of September 30, 2019. 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, 2019. 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 could negatively affect our operating results and shareholders' equity.

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.

If we acquire, combine with or invest in other businesses, we will face risks inherent in such transactions.

We have in the past considered and will continue, from time to time, to consider, opportunistic strategic or transformative transactions, which could involve acquisitions, combinations or dispositions of businesses or assets, or strategic alliances or joint ventures with companies engaged in music entertainment, entertainment or other businesses. Any such combination could be material, be difficult to implement, disrupt our business or change our business profile, focus or strategy significantly.

Any future 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 antitrust approval; and
- changing our business profile in ways that could have unintended consequences.

If we enter into significant 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, which may be substantial. 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 or transformative 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 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 be more efficient and generate cost savings, we have outsourced certain finance and accounting functions. As a result, we rely on third parties to ensure that our needs are sufficiently met. This reliance subjects us to risks arising from the loss of control over processes, changes in pricing that may affect our operating results, and potentially, termination of provisions of these services by our suppliers. 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.

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.

Our business is significantly impacted by ongoing changes in the music entertainment industry. In response, we actively seek to adapt our cost structure to the changing economics of the industry. For example, we have shifted and continue to shift resources from our physical sales channels to efforts focused on digital channels, emerging technologies and other new revenue streams, and we continue our efforts to reduce overhead and manage our variable and fixed-cost structure. In fiscal year 2018, we completed the creation of our new center of excellence for U.S. financial shared services in Nashville, Tennessee, which combined our U.S. transactional financial functions in one location. To establish the new center, we moved some of our U.S. departments to Nashville. In August 2019, we announced that we were beginning a financial transformation initiative to upgrade our information technology and finance infrastructure over the next two years, including related systems and processes. We expect to incur significant costs in connection with this project, and there can be no assurance that we will be successful in upgrading our systems and processes effectively or on the timetable and at the costs contemplated, or that we will achieve the expected long-term cost savings.

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 ongoing or 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 stockholder 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. Access also provides us with financial, investment banking, management, advisory and other services pursuant to the Management Agreement (as defined below), 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 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 other industries 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. We may also, from time to time, pay dividends to our stockholders within the requirements of our debt agreements and applicable law. If we were to pay dividends, the funds used to make such dividend payments would not be available to service our indebtedness.

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.

If we or our service providers do not maintain the security of information relating to our customers, employees and vendors and our music, 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, are 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, which are rapidly evolving and sophisticated, or otherwise) that results in personal information being obtained by unauthorized persons or other bad acts 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. Unauthorized persons have also attempted to redirect payments to or from us. If any such attempt were successful, we could lose and fail to recover the redirected funds, which loss could be material. We may also be subject to cyber-attacks that target our music, including not-yet-released music. The theft and premature release of this music 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 business.

Evolving laws and 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 and governmental 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 (including the European Union General Data Protection Regulation effective on May 25, 2018 and the California Consumer Privacy Act effective on January 1, 2020) 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, electronic marketing and the use of third-party cookies, web beacons and similar technology for online behavioral advertising.

The Federal Trade Commission adopted certain revisions to its rule promulgated pursuant to the Children’s Online Privacy Protection Act (“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.

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. Any actual or alleged violations of laws and regulations relating to privacy and data security, and any relevant claims, may expose us to potential liability, fines and may require us to expend significant resources in responding to and defending such allegations and claims, regardless of merit. Claims or allegations that we have violated laws and regulations relating to privacy and data security could also result in negative publicity and a loss of confidence in us.

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. 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 adversely 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 enactment of the Sound Recordings Act of 1971, which first accorded federal copyright protection for sound recordings in the U.S., 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. We believe the effect of any potential terminations is already reflected in the financial results of our business.

If our recording artists and songwriters are characterized as employees, we would be subject to employment and withholding liabilities.

Although we believe that the recording artists and songwriters with which we partner are properly characterized as independent contractors, tax or other regulatory authorities may in the future challenge our characterization of these relationships. We are aware of a number of judicial decisions and legislative proposals that could bring about major reforms in worker classification, including the California legislature's recent passage of California Assembly Bill 5 ("AB 5"). AB 5 purports to codify a new test for determining worker classification that is widely viewed as expanding the scope of employee relationships and narrowing the scope of independent contractor relationships. Given AB 5's recent passage, there is no guidance from the regulatory authorities charged with its enforcement, and there is a significant degree of uncertainty regarding its application. In addition, AB 5 has been the subject of widespread national discussion and it is possible that other jurisdictions may enact similar laws. If such regulatory authorities or state, federal or foreign courts were to determine that our recording artists and songwriters are employees, and not independent contractors, we would be required to withhold income taxes, to withhold and pay Social Security, Medicare and similar taxes and to pay unemployment and other related payroll taxes. We would also be liable for unpaid past taxes and subject to penalties. As a result, any determination that our recording artists and songwriters are our employees could have a material adverse effect on our business, financial condition and results of operations.

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, 2019, our total consolidated indebtedness, net of deferred financing costs, was $2.974 billion. In addition, we would have been able to borrow up to $167 million under our Revolving Credit Facility (as defined later in this Annual Report) as of September 30, 2019 (after giving effect to approximately $13 million of letters of credit outstanding under our Revolving Credit Facility as of September 30, 2019).

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 revolving portion of our Senior Credit Facilities (as defined later in this Annual Report) 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 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.”

Acquisition Corp. may not be able to generate sufficient cash to service all of its indebtedness and may be forced to take other actions to satisfy its obligations under its indebtedness, which may not be successful.

Acquisition Corp.’s ability to make scheduled payments on or to refinance its debt obligations depends on its 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. Acquisition Corp. may not maintain a level of cash flow 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.

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 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;
- pay dividends to us (in the case of our restricted subsidiaries) 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 Credit Facilities contain a number of covenants that limit our 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;
- 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 revolving portion of the Senior Credit Facilities depends upon satisfaction of these covenants. Events beyond our control can affect our ability to meet these covenants. In addition, under the credit agreement governing the revolving portion of the Senior Credit Facilities, a financial maintenance covenant is applicable if at the end of a quarter the outstanding amount of loans and letters of credit is in excess of $54 million.

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. We may, from time to time, refinance our existing indebtedness, which could result in the agreements governing any new indebtedness having fewer or less restrictive covenants, including removing or lessening restrictions on our ability to incur additional indebtedness or make restricted payments.

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. While subject to certain restrictions in our debt agreements, if we were to pay dividends to our shareholders, the funds used to make such dividend payments would not be available to service our indebtedness.

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 Credit Facilities 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.

To the extent that the terms of our current debt agreements would prevent us from incurring additional indebtedness, we may be able to obtain amendments to those agreements that would allow us to incur such additional indebtedness, and such additional indebtedness could be material.

A downgrade, suspension or withdrawal of the rating assigned by a rating agency to us could cause the liquidity or market value of our indebtedness to decline and our cost of capital to increase.

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.

Special Note Regarding Forward-Looking Statements

We have made various statements in this Annual Report that may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements may also be made in our other reports filed with or furnished to the SEC, in our press releases and in other documents. In addition, from time to time, we, through our management, may make oral forward-looking statements. Forward-looking statements are subject to risks and uncertainties, including those identified above, which could cause actual results to differ materially from such statements. The words “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimated,” “believe,” “intend,” “plan,” “may,” “should,” “could,” “would,” “likely,” “projection,” “outlook” and similar expressions are intended to identify forward-looking statements. We caution you that the risk factors described above are not exclusive. There may also be other risks that we are unable to predict at this time that may cause actual results to differ materially from those in forward-looking statements. New factors emerge from time to time and it is not possible for us to predict which will arise or to assess with any precision the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date on which they are made. We undertake no obligation to update publicly or revise any forward-looking statements, except as required by law.

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 principal executive offices and 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 also have a long-term lease located at 3400 West Olive Avenue, Burbank, California 91505 that will expire on December 31, 2019. We have exited this property and terminated the lease for two of the six floors that we previously occupied. On October 7, 2016, we entered into a lease agreement for new office space located in the Ford Factory Building at 777 S. Santa Fe Avenue, Los Angeles, California 90021 beginning on August 1, 2017 for an initial term of 12 years and 9 months with a single option to extend the term of the lease for 10 years. This office space is currently used as our Los Angeles, California headquarters. 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

SiriusXM

On September 11, 2013, the Company 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 SiriusXM Radio Inc., alleging copyright infringement for SiriusXM's use of pre-1972 sound recordings under California law. A nation-wide settlement was reached on June 17, 2015 pursuant to which SiriusXM paid the plaintiffs, in the aggregate, $210 million on July 29, 2015 and the plaintiffs dismissed their lawsuit with prejudice. The settlement resolved all past claims as to SiriusXM's use of pre-1972 recordings owned or controlled by the plaintiffs and enabled SiriusXM, without any additional payment, to reproduce, perform and broadcast such recordings in the United States through December 31, 2017. The allocation of the settlement proceeds among the plaintiffs was determined and the settlement proceeds were distributed accordingly. This resulted in a cash distribution to the Company of $33 million of which $28 million was recognized in revenue during the 2016 fiscal year and $4 million was recognized in revenue during the 2017 fiscal year. The balance of $1 million was recognized in the first quarter of the 2018 fiscal year. The Company is sharing its allocation of the settlement proceeds with its artists on the same basis as statutory revenue from SiriusXM is shared, i.e., the artist share of our allocation will be paid to artists by SoundExchange.

As part of the settlement, plaintiffs agreed to negotiate in good faith to grant SiriusXM a license to publicly perform the plaintiffs' pre-1972 sound recordings for the five-year period running from January 1, 2018 to December 31, 2022. Pursuant to the settlement, if the parties were unable to reach an agreement on license terms, the royalty rate for each license would be determined by binding arbitration on a willing buyer/willing seller standard. On December 21, 2017, SiriusXM commenced a single arbitration against all of the plaintiffs in California through JAMS to determine the rate for the five-year period. On May 1, 2018, the Company filed a lawsuit against SiriusXM in New York state court to stay the California arbitration and to compel a separate arbitration in New York solely between SiriusXM and the Company. On August 23, 2018, the Company filed a Stipulation of Discontinuance without Prejudice as to the New York state court action after SiriusXM agreed to participate in a separate arbitration with the Company in New York if the parties were unable to reach an agreement on pre-1972 license terms. On March 28, 2019, the Company and SiriusXM entered into an agreement granting SiriusXM a license to publicly perform the Company's pre-1972 sound recordings for the five-year period running from January 1, 2018 to December 31, 2022.

Other Matters

In addition to the matter 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 the currently pending proceedings, the amount of accrual is not 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 November 27, 2019, there were 1,060 shares of our common stock outstanding. Affiliates of Access currently own 100% of our common stock.

Dividends

The Company's ability to pay dividends is restricted by covenants in the indentures governing its notes and in the credit agreements for the Senior Term Loan Facility and the Revolving Credit Facility.

On September 23, 2019, the Company's board of directors declared a cash dividend of $206.25 million which was paid to stockholders on October 4, 2019 and recorded as an accrual as of September 30, 2019. For fiscal year 2019, the Company paid an aggregate of $93.75 million in cash dividends to stockholders. For fiscal year 2018, the Company paid an aggregate of $925 million in cash dividends to stockholders, which reflected proceeds from the sale of Spotify shares acquired in the ordinary course of business. For fiscal year 2017, the Company paid an aggregate of $84 million in cash dividends to stockholders.

In the first quarter of fiscal year 2019, the Company instituted a regular quarterly dividend policy whereby it intends to pay a modest regular quarterly dividend in each fiscal quarter and a variable dividend for the fourth fiscal quarter in an amount commensurate with cash expected to be generated from operations in such fiscal year, in each case, after taking into account other potential uses for cash, including acquisitions, investment in our business and repayment of indebtedness. The declaration of each dividend will continue to be at the discretion of the Board.

ITEM 6. SELECTED FINANCIAL DATA

Our summary balance sheet data as of September 30, 2019 and September 30, 2018 and the statements of operations and other data for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017 have been derived from our audited financial statements included in this Annual Report 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.

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

	Fiscal Year Ended September 30, 2019	Fiscal Year Ended September 30, 2018	Fiscal Year Ended September 30, 2017	Fiscal Year Ended September 30, 2016	Fiscal Year Ended September 30, 2015
			(in millions)		
Statement of Operations Data:					
Revenues	$ 4,475	$ 4,005	$ 3,576	$ 3,246	$ 2,966
Net income (loss) attributable to Warner Music Group Corp. (1)	256	307	143	25	(91)
Balance Sheet Data (at period end):					
Cash and equivalents	$ 619	$ 514	$ 647	$ 359	$ 246
Total assets	6,017	5,344	5,718	5,335	5,574
Total debt (including current portion of long-term debt)	2,974	2,819	2,811	2,778	2,947
Warner Music Group Corp. (deficit) equity	(289)	(334)	293	195	221
Cash Flow Data:					
Cash flows provided by (used in):					
Operating activities	$ 400	$ 425	$ 535	$ 342	$ 222
Investing activities	(376)	405	(126)	(8)	(95)
Financing activities	88	(955)	(128)	(216)	(19)
Capital expenditures	(104)	(74)	(44)	(42)	(63)

(1) Net income attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2019 includes a net loss on extinguishment of debt of $7 million, variable compensation costs associated with the Senior Management Free Cash Flow Plan of $71 million and a benefit due to the reversal of the U.S. valuation allowance of $59 million related to foreign tax credits. Net income attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2018 includes a net loss on extinguishment of debt of $31 million, variable compensation costs associated with the Senior Management Free Cash Flow Plan of $108 million, net gain on the Spotify share sale of $317 million after taxes and restructuring charges of $44 million. Net income attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2017 includes a benefit due to the reversal of the U.S. valuation allowance of $125 million, net loss on extinguishment of debt of $35 million, variable compensation costs associated with the Senior Management Free Cash Flow Plan of $102 million and net gain on divestitures primarily related to PLG of $6 million. Net income attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2016 includes net loss on extinguishment of debt of $18 million, gain on sale of real estate of $24 million and net gain on divestitures primarily related to PLG of $9 million. 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.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results and the timing of events could differ materially from those projected in forward-looking statements due to a number of factors, including those described under "Item 1A. Risk Factors" and elsewhere in this Annual Report. See "Special Note Regarding Forward-Looking Statements."

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 for the fiscal year ended September 30, 2019.

INTRODUCTION

The Company was formed on November 21, 2003. The Company is the direct parent of Holdings, which is the direct parent of Acquisition Corp. Acquisition Corp. is one of the world's major music entertainment 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. and 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:

- *Business 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 comparability 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, 2019, September 30, 2018 and September 30, 2017. 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, 2019, September 30, 2018 and September 30, 2017, as well as a discussion of our financial condition and liquidity as of September 30, 2019. The discussion of our financial condition and liquidity includes recent debt financings and a summary of the key debt covenant 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 ("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 and other non-operating income (loss). Accordingly, OIBDA should be considered in addition to, not as a substitute for, operating income (loss), net income (loss) attributable to Warner Music Group Corp. and other measures of financial performance reported in accordance with United States generally accepted accounting principles ("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 (loss) 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 results 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 revenue 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." This revenue 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 it, 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.

BUSINESS OVERVIEW

We are one of the world's leading music entertainment companies. Our renowned family of iconic record labels, including Atlantic Records, Warner Records, Elektra Records and Parlophone Records, is home to many of the most popular and influential recording artists. In addition, Warner Chappell Music, our global music publishing business, boasts an extraordinary catalog that includes timeless standards and contemporary hits, representing works by over 80,000 songwriters and composers, with a global collection of more than 1.4 million musical compositions. 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.

Components of Our Operating Results

Recorded Music Operations

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

In the United States, our Recorded Music business is conducted principally through our major record labels—Atlantic Records and Warner Records. In October 2018, we launched Elektra Music Group in the United States as a standalone label group, which comprises the Elektra, Fueled by Ramen and Roadrunner labels. Our Recorded Music business also includes Rhino Entertainment, a division that specializes in marketing our recorded music catalog through compilations, reissuances of previously released music and video titles and releasing previously unreleased material from our vault. We also conduct our Recorded Music business through a collection of additional record labels including Asylum, Big Beat, Canvasback, East West, Erato, FFRR, Nonesuch, Parlophone, Reprise, Sire, Spinnin', Warner Classics and Warner Music Nashville.

Outside the United States, our Recorded Music business is conducted in more than 60 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, selling, marketing and promoting their music. In most cases, we also market, promote, distribute and sell the music of those recording artists for whom our domestic record labels have international rights. In certain smaller markets, we license the right to distribute and sell our music to non-affiliated third-party record labels.

Our Recorded Music business' distribution operations include WEA Corp., which markets, distributes and sells music and video products to retailers and wholesale distributors; ADA, which markets, distributes and sells the products of independent labels to retail and wholesale distributors; and various distribution centers and ventures operated internationally.

In addition to our music being sold in physical retail outlets, our music is also sold in physical form to online physical retailers, such as Amazon.com, barnesandnoble.com and bestbuy.com, and distributed in digital form to an expanded universe of digital partners, including streaming services such as those of Amazon, Apple, Deezer, SoundCloud, Spotify, Tencent Music Entertainment Group and YouTube, radio services such as iHeart Radio and SiriusXM and download services such as Apple's iTunes and Google Play.

We have integrated the marketing of digital content into all aspects of our business, including A&R and distribution. Our business development executives work closely with A&R departments to ensure that while music 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 attributable to each distribution channel varies by region and proportions may change as the introduction of new technologies continues. As one of the world's largest music entertainment

companies, 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 such artists in other aspects of their careers. Under these agreements, we provide services to and participate in recording artists' activities outside the traditional recorded music business such as touring, merchandising and sponsorships. We have built and acquired artist services capabilities and platforms for marketing and distributing 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 merchandising, VIP ticketing, fan clubs, 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 our recording artists and allows us to more effectively connect recording artists and fans.

Recorded Music revenues are derived from four main sources:

- *Digital*: the rightsholder receives revenues with respect to streaming and download services;
- *Physical*: the rightsholder receives revenues with respect to sales of physical products such as vinyl, CDs and DVDs;
- *Artist services and expanded-rights*: the rightsholder receives revenues with respect to our artist services businesses and our participation in expanded rights associated with our recording 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 video games; 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 business are as follows:

- *A&R costs*: the costs associated with (i) paying royalties to recording artists, producers, songwriters, other copyright holders and trade unions; (ii) signing and developing recording 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 recording artists and music, 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 marketing, promoting, distributing and licensing a particular recording of a musical composition, Music Publishing is an intellectual property business focused on generating revenue from uses of the musical 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 musical compositions.

The operations of our Music Publishing business are conducted principally through Warner Chappell Music, our global music publishing company headquartered in Los Angeles with operations in over 60 countries through various subsidiaries, affiliates and non-affiliated licensees. We own or control rights to more than 1.4 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 80,000 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 and gospel. Warner Chappell Music also administers the music and soundtracks of several third-party television and film producers and studios. We have an extensive production music catalog collectively branded as Warner Chappell Production Music.

Music Publishing revenues are derived from five main sources:

- *Performance:* the rightsholder receives revenues if the musical 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;
- *Digital:* the rightsholder receives revenues with respect to musical compositions embodied in recordings distributed in streaming services, download services and other digital music services;
- *Mechanical:* the rightsholder receives revenues with respect to musical compositions embodied in recordings sold in any physical format or configuration such as vinyl, CDs and DVDs;
- *Synchronization:* the rightsholder receives revenues for the right to use the musical composition in combination with visual images such as in films or television programs, television commercials and video games as well as from other uses such as in toys or novelty items and merchandise; and
- *Other:* the rightsholder receives revenues for use in sheet music and other uses.

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

- *A&R costs*: the costs associated with (i) paying royalties to songwriters, co-publishers and other copyright holders in connection with income generated from the uses of their works and (ii) signing and developing songwriters; and
- *Selling and marketing, general overhead and other administrative expenses*: the costs associated with selling and marketing, general overhead and other administrative expenses.

Factors Affecting Results of Operations and Comparability

Acquisition of EMP

On October 10, 2018, we acquired E.M.P. Merchandising Handelsgesellschaft mbH, a limited liability company under the laws of Germany, and its subsidiaries, all of the share capital of MIG Merchandising Investment GmbH, a limited liability company under the laws of Germany, and its subsidiaries, and certain shares of Large Popmarchandising BVBA, a limited liability company under the laws of Belgium (together, “EMP”). EMP is a specialty retailer of merchandise for many popular artists along with other forms of entertainment such as movies and television.

Adoption of New Revenue Recognition Standard

In May 2014, the FASB issued guidance codified in ASC 606, *Revenue from Contracts with Customers* (“ASC 606”), which replaces the guidance in former ASC 605, *Revenue Recognition* and ASC 928-605, *Entertainment—Music*. The adoption of ASC 606 resulted in a change in the timing of revenue recognition in our Music Publishing business as well as international broadcast rights within our Recorded Music business. Under the new revenue recognition rules, revenue is recorded based on best estimates available in the period of sale or usage whereas revenue was previously recorded when cash was received for both the licensing of music publishing rights and international recorded music broadcast fees. Additionally, for certain licenses where the consideration is fixed and the intellectual property being licensed is static, revenue is recognized at the point in time when control of the licensed content is transferred to the customer. See “Critical Accounting Policies.”

Acquisition of Spinnin’ Records

On September 7, 2017, we acquired Spinnin’ Records, one of the world’s most successful and important dance and electronic music companies. Based in the Netherlands, over the past two decades the label signed and nurtured a fantastic roster of pioneering recording artists and built prominent music publishing and artist management businesses.

Sale of Non-Core Assets

During the fiscal year ended September 30, 2017, we completed the divestiture of certain assets related to the acquisition in July 2013 (the “PLG Acquisition”) of PLG. The cash received for these sales was $73 million. The net gain recognized for these sales was $6 million.

Other Business Models to Drive Incremental Revenue

Artist Services and Expanded-Rights Deals

As the recorded music industry has continued to transition to a business model through which the majority of revenues are generated from streaming, 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. In addition to signing recording artists to expanded-rights deals, we have continued to make strategic investments to expand our Recorded Music business and open up new opportunities for our recording artists, including the acquisition of EMP. 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 14%, 10% and 11% of our total revenues during the years ended September 30, 2019, September 30, 2018 and September 30, 2017, respectively. Artist services and expanded-rights revenue will fluctuate from period to period depending upon recording artists' touring schedules, among other things. Margins for the various artist services and expanded-rights revenue streams can vary significantly as well. 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 management and revenue from participation in touring and sponsorships under our expanded-rights deals are all high margin, while revenue under our expanded-rights deals and revenue from some of our artist services businesses such as merchandising tend to be lower margin than our traditional revenue streams in our Recorded Music business.

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 provides the Company and its subsidiaries with financial, investment banking, management, advisory and other services. Pursuant to the Management Agreement, the Company pays to Access an annual fee equal to the greater of (i) a base amount, which is the sum of (x) $6 million and (y) 1.5% of the aggregate amount of Acquired EBITDA (as defined in the Management Agreement) and was approximately $9 million for the fiscal year ended September 30, 2019, and (ii) 1.5% of the EBITDA (as defined in the indenture governing the redeemed WMG Holdings Corp. 13.75% Senior Notes due 2019) of the Company for the applicable fiscal year, plus expenses. The fee is paid quarterly based on the base amount, with a true-up payment for the fourth quarter for any excess of the annual fee above the base amount. 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 $11 million, $16 million and $9 million for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017, respectively. The fiscal year ended September 30, 2019 included the annual base fee of $9 million and an increase of $2 million calculated pursuant to the Management Agreement. The fiscal year ended September 30, 2018 included the annual base fee of $9 million and an increase of $7 million calculated pursuant to the Management Agreement.

RESULTS OF OPERATIONS

Fiscal Year Ended September 30, 2019 Compared with Fiscal Year Ended September 30, 2018 and Fiscal Year Ended September 30, 2017

Consolidated Results

Revenues

The Company's revenues were composed of the following amounts (in millions):

	For the Fiscal Year Ended September 30,			*2019 vs. 2018*		*2018 vs. 2017*	
	2019	**2018**	**2017**	**$ Change**	**% Change**	**$ Change**	**% Change**
Revenue by Type							
Digital	$ 2,343	$ 2,019	$ 1,692	$ 324	16 %	$ 327	19 %
Physical	559	630	667	(71)	-11 %	(37)	-6 %
Total Physical and Digital	2,902	2,649	2,359	253	10 %	290	12 %
Artist services and expanded-rights	629	389	385	240	62 %	4	1 %
Licensing	309	322	276	(13)	-4 %	46	17 %
Total Recorded Music	3,840	3,360	3,020	480	14 %	340	11 %
Performance	183	212	197	(29)	-14 %	15	8 %
Digital	271	237	187	34	14 %	50	27 %
Mechanical	55	72	65	(17)	-24 %	7	11 %
Synchronization	120	119	112	1	1 %	7	6 %
Other	14	13	11	1	8 %	2	18 %
Total Music Publishing	643	653	572	(10)	-2 %	81	14 %
Intersegment eliminations	(8)	(8)	(16)	—	— %	8	-50 %
Total Revenues	$ 4,475	$ 4,005	$ 3,576	$ 470	12 %	$ 429	12 %
Revenue by Geographical Location							
U.S. Recorded Music	$ 1,656	$ 1,460	$ 1,329	$ 196	13 %	$ 131	10 %
U.S. Music Publishing	300	294	258	6	2 %	36	14 %
Total U.S.	1,956	1,754	1,587	202	12 %	167	11 %
International Recorded Music	2,184	1,900	1,691	284	15 %	209	12 %
International Music Publishing	343	359	314	(16)	-4 %	45	14 %
Total International	2,527	2,259	2,005	268	12 %	254	13 %
Intersegment eliminations	(8)	(8)	(16)	—	— %	8	-50 %
Total Revenues	$ 4,475	$ 4,005	$ 3,576	$ 470	12 %	$ 429	12 %

Total Revenues

2019 vs. 2018

Total revenues increased by $470 million, or 12%, to $4,475 million for the fiscal year ended September 30, 2019 from $4,005 million for the fiscal year ended September 30, 2018, which includes an increase of $240 million, or 6%, due to the acquisition of EMP and $28 million, or 1%, due to the adoption of the new revenue recognition standard, ASC 606, in October 2018. Prior to intersegment eliminations, Recorded Music revenues represented 86% and 84% of total revenues for the fiscal years ended September 30, 2019 and September 30, 2018, respectively. Prior to intersegment eliminations, Music Publishing revenues represented 14% and 16% of total revenues for the fiscal years ended September 30, 2019 and September 30, 2018, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 44% and 56% of total revenues for each of the fiscal years ended September 30, 2019 and September 30, 2018.

Total digital revenues after intersegment eliminations increased by $358 million, or 16%, to $2,610 million for the fiscal year ended September 30, 2019 from $2,252 million for the fiscal year ended September 30, 2018. Total digital revenues represented 58% and 56% of consolidated revenues for the fiscal years ended September 30, 2019 and September 30, 2018, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2019 were comprised of U.S. revenues of $1,382 million and international revenues of $1,232 million, or 53% and 47% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2018 were comprised of U.S. revenues of $1,169 million and international revenues of $1,087 million, or 52% and 48% of total digital revenues, respectively.

Recorded Music revenues increased by $480 million, or 14%, to $3,840 million for the fiscal year ended September 30, 2019 from $3,360 million for the fiscal year ended September 30, 2018. U.S. Recorded Music revenues were $1,656 million and $1,460 million, or 43% of consolidated Recorded Music revenues for each of the fiscal years ended September 30, 2019 and September 30, 2018. International Recorded Music revenues were $2,184 million and $1,900 million, or 57% of consolidated Recorded Music revenues for each of the fiscal years ended September 30, 2019 and September 30, 2018.

The overall increase in Recorded Music revenue was driven by increases in digital revenue and artist services and expanded-rights revenue, partially offset by decreases in physical revenue and licensing revenue. Digital revenue increased by $324 million as a result of the continued growth in streaming services and a strong release schedule including top seller Meek Mill and carryover success from Ed Sheeran, *The Greatest Showman* and Cardi B as well as the adoption of ASC 606. Revenue from streaming services grew by $396 million to $2,129 million for the fiscal year ended September 30, 2019 from $1,733 million for the fiscal year ended September 30, 2018. Digital revenue growth was partially offset by a decline in download and other digital revenues of $72 million to $214 million for the fiscal year ended September 30, 2019 from $286 million for the fiscal year ended September 30, 2018 due to the continued shift to streaming. Artist services and expanded-rights revenue increased by $240 million primarily due to a $240 million increase related to the acquisition of EMP, higher merchandising and advertising revenues and timing of larger tours in Japan, partially offset by $94 million related to the divestment of a concert promotion business in Italy and the unfavorable impact of foreign currency exchange rates of $11 million. Physical revenue decreased by $71 million primarily due to the unfavorable impact of foreign currency exchange rates of $15 million, continued shift from physical revenue to digital revenue, partially offset by the success of new releases. Licensing revenue decreased by $13 million primarily due to the unfavorable impact of foreign currency exchange rates of $11 million and the impact of ASC 606 of $4 million.

Music Publishing revenues decreased by $10 million, or 2%, to $643 million for the fiscal year ended September 30, 2019 from $653 million for the fiscal year ended September 30, 2018, which was partially offset by an increase of $23 million due to the adoption of ASC 606. U.S. Music Publishing revenues were $300 million, or 47% of consolidated Music Publishing revenues for the fiscal year ended September 30, 2019, and $294 million, or 45% of consolidated Music Publishing revenues for the fiscal year ended September 30, 2018. International Music Publishing revenues were $343 million, or 53% of consolidated Music Publishing revenues for the fiscal year ended September 30, 2019, and $359 million, or 55% of consolidated Music Publishing revenues for the fiscal year ended September 30, 2018.

The overall decrease in Music Publishing revenue was mainly driven by decreases in performance revenue of $29 million and mechanical revenue of $17 million, partially offset by increases in digital revenue of $34 million, synchronization revenue of $1 million and other revenue of $1 million. The decreases in Music Publishing performance revenue and mechanical revenue are primarily due to lost administration rights and lower market share, partially offset by $7 million related to the adoption of ASC 606. The increase in digital revenue includes an $14 million increase resulting from the adoption of ASC 606 and increases in streaming revenue driven by the continued growth in streaming services, partially offset by decreases in download revenue.

2018 vs. 2017

Total revenues increased by $429 million, or 12%, to $4,005 million for the fiscal year ended September 30, 2018 from $3,576 million for the fiscal year ended September 30, 2017. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 84% and 16% of revenues for each of the fiscal years ended September 30, 2018 and the fiscal year ended September 30, 2017. Prior to intersegment eliminations, U.S. and international revenues represented 44% and 56% of total revenues for each of the fiscal years ended September 30, 2018 and September 30, 2017.

Total digital revenues after intersegment eliminations increased by $382 million, or 20%, to $2,252 million for the fiscal year ended September 30, 2018 from $1,870 million for the fiscal year ended September 30, 2017. Total digital revenues represented 56% and 52% of consolidated revenues for the fiscal year ended September 30, 2018 and September 30, 2017, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2018 were comprised of U.S. revenues of $1,169 million and international revenues of $1,087 million, or 52% and 48% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2017 were comprised of U.S. revenues of $1,005 million and international revenues of $874 million, or 53% and 47% of total digital revenues, respectively.

Recorded Music revenues increased by $340 million, or 11%, to $3,360 million for the fiscal year ended September 30, 2018 from $3,020 million for the fiscal year ended September 30, 2017. U.S. Recorded Music revenues were $1,460 million and $1,329 million, or 43% and 44% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2018 and September 30, 2017, respectively. International Recorded Music revenues were $1,900 million and $1,691 million, or 57% and 56% of consolidated Recorded Music revenues for the fiscal years ended September 30, 2018 and September 30, 2017, respectively.

The overall increase in Recorded Music revenue was driven by increases in digital revenue, licensing revenue and artist services and expanded-rights revenue, partially offset by a decrease in physical revenue. Digital revenue increased by $327 million as

a result of the continued growth in streaming services, and a strong release schedule. Revenue from streaming services grew by $391 million to $1,733 million for the fiscal year ended September 30, 2018 from $1,342 million for the fiscal year ended September 30, 2017. Digital revenue growth was partially offset by download and other digital declines of $64 million to $286 million for the fiscal year ended September 30, 2018 from $350 million for the fiscal year ended September 30, 2017. Licensing revenue increased by $46 million primarily due to higher broadcast fee income, revenue from recent acquisitions and increased synchronization activity. Artist services and expanded-rights revenue increased by $4 million primarily due to the favorable impact of foreign currency exchange rates of $13 million and higher merchandise revenue, partially offset by certain concert promotion business divestitures and the timing of tours. Physical revenue decreased by $37 million primarily due to underlying market decline as consumption shifts from physical to digital products.

Music Publishing revenues increased by $81 million, or 14%, to $653 million for the fiscal year ended September 30, 2018 from $572 million for the fiscal year ended September 30, 2017. U.S. Music Publishing revenues were $294 million and $258 million, or 45% of consolidated Music Publishing revenues for each of the fiscal years ended September 30, 2018 and September 30, 2017. International Music Publishing revenues were $359 million and $314 million, or 55% of consolidated Music Publishing revenues for each of the fiscal years ended September 30, 2018 and September 30, 2017.

The overall increase in Music Publishing revenue was mainly driven by increases in digital revenue of $50 million, performance revenue of $15 million, synchronization revenue of $7 million and mechanical revenue of $7 million. The increase in digital revenue was due to an increase in streaming of $60 million, partially offset by download and other digital declines of $10 million. Performance revenue increased due to higher distributions. Synchronization revenue increased due to increased television and commercial income. The increase in mechanical revenue was attributable to the timing of distributions.

Revenue by Geographical Location

2019 vs. 2018

U.S. revenue increased by $202 million, or 12%, to $1,956 million for the fiscal year ended September 30, 2019 from $1,754 million for the fiscal year ended September 30, 2018. U.S. Recorded Music revenue increased by $196 million or 13%. The primary driver was the increase in U.S. Recorded Music digital revenue, which increased by $191 million due to the continued growth in streaming services. Streaming revenue increased by $228 million, partially offset by a $37 million decline in download revenue. U.S. artist services and expanded-rights revenue also increased by $50 million, or 40%, driven by higher advertising and merchandising revenues. These increases were partially offset by a decline in U.S. physical revenue of $38 million due to the shift from physical to digital formats. U.S. Music Publishing revenue increased by $6 million or 2%. This was primarily driven by the increase in U.S. Music Publishing digital revenue of $22 million due to an increase in streaming revenue and adoption of ASC 606, partially offset by decreases in mechanical revenue of $12 million, performance revenue of $3 million and other revenue of $1 million.

International revenue increased by $268 million, or 12%, to $2,527 million for the fiscal year ended September 30, 2019 from $2,259 million for the fiscal year ended September 30, 2018, which includes $240 million related to the acquisition of EMP. Excluding the unfavorable impact of foreign currency exchange rates, International revenue increased by $375 million or 17%. International Recorded Music revenue increased $284 million primarily due to increases in digital revenue of $133 million and artist services and expanded-rights revenue of $190 million, partially offset by a decrease in physical revenue of $33 million and licensing revenue of $6 million. International Recorded Music digital revenue increased due to a $168 million increase in streaming services revenue, partially offset by a $35 million decline in download and other digital revenue. The increase in international Recorded Music streaming revenue was due to the continued growth in streaming services internationally and strong release performance. Decline in downloads was due to the continued shift to streaming services. International Recorded Music artist services and expanded-rights revenue increased $240 million due to the acquisition of EMP, higher merchandising revenues and timing of larger tours in Japan in the current fiscal year, partially offset by $94 million related to the divestment of a concert promotion business in Italy and the unfavorable impact of foreign currency exchange rates of $11 million. International Recorded Music physical revenue decreased due to the continued shift from physical to digital formats and the unfavorable impact of foreign currency exchange rates of $15 million, partially offset by the success of new releases including Johnny Hallyday in France and local artists in Japan. International Recorded Music licensing revenue decreased due to the unfavorable impact of foreign currency exchange rates of $13 million and the impact of ASC 606, partially offset by increased synchronization activity in the U.K. and Japan. International Music Publishing revenue decreased $16 million or 4%. This was primarily driven by decreases in international Music Publishing performance revenue of $26 million and mechanical revenue of $5 million both due to lost administration rights and lower market share, partially offset by the increase in digital revenue of $12 million primarily due to growth in streaming and the adoption of ASC 606.

2018 vs. 2017

U.S. revenue increased by $167 million, or 11%, to $1,754 million for the fiscal year ended September 30, 2018 from $1,587 million for the fiscal year ended September 30, 2017. U.S. Recorded Music revenue increased by $131 million or 10%. The primary

driver was the increase in U.S. Recorded Music digital revenue, which increased by $144 million due to the continued growth in streaming services and strong release performance. U.S. licensing revenue increased by $9 million due to higher broadcast fee income and increased synchronization activity. These increases were partially offset by a decline in U.S. physical revenue of $16 million due to the shift from physical revenue to digital revenue and a decline in artist services and expanded-rights revenue of $6 million. U.S. Music Publishing revenues increased by $36 million or 14%. This was primarily driven by the increase in U.S. Music Publishing digital revenue of $20 million due to an increase in streaming revenue of $32 million from the continued growth in streaming services, partially offset by declines in download and other digital revenue of $12 million. U.S. mechanical revenue and U.S. performance revenue increased by $8 million and $3 million, respectively, due to higher distributions. U.S synchronization revenue increased by $4 million due to increased film and commercial income.

International revenue increased by $254 million, or 13%, to $2,259 million for the fiscal year ended September 30, 2018 from $2,005 million for the fiscal year ended September 30, 2017. Excluding the favorable impact of foreign currency exchange rates, international revenue increased by $163 million or 8%. International Recorded Music revenue increased $209 million primarily due to increases in digital revenue of $183 million, licensing revenue of $37 million and artist services and expanded-rights revenue of $10 million, partially offset by a decrease in physical revenue of $21 million. International Recorded Music digital revenue increased due to a $211 million increase in streaming services revenue, partially offset by a $28 million decline in download and other digital revenue. The increase in international Recorded Music streaming revenue was due to the continued growth in streaming services internationally and strong release performance from WANIMA in Japan. International Recorded Music licensing revenue increased due to revenue from recent acquisitions, higher broadcast fee income and the favorable impact of foreign currency exchange rates of $10 million. International Recorded Music artist services and expanded-rights revenue increased due to the favorable impact of foreign currency exchange rates of $13 million, partially offset by successful tours in France in the prior fiscal year with no comparable tours in the current fiscal year and divestment of certain concert promotion businesses in the prior year. International Recorded Music physical revenue decreased due to the continued shift from physical to digital revenue, partially offset by the favorable impact of foreign currency exchange rates of $27 million. International Music Publishing revenue increased $45 million primarily due to increases in digital revenue of $30 million, in performance revenue of $12 million and in synchronization revenue of $3 million.

Cost of revenues

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

	For the Fiscal Year Ended September 30,			*2019 vs. 2018*		*2018 vs. 2017*	
	2019	**2018**	**2017**	**$ Change**	**% Change**	**$ Change**	**% Change**
Artist and repertoire costs	$ 1,574	$ 1,471	$ 1,303	$ 103	7%	$ 168	13%
Product costs	827	700	628	127	18%	72	12%
Total cost of revenues	$ 2,401	$ 2,171	$ 1,931	$ 230	11%	$ 240	12%

2019 vs. 2018

Our cost of revenues increased by $230 million, or 11%, to $2,401 million for the fiscal year ended September 30, 2019 from $2,171 million for the fiscal year ended September 30, 2018. Expressed as a percentage of revenues, cost of revenues remained constant at 54% for each of the fiscal years ended September 30, 2019 and September 30, 2018.

Artist and repertoire costs increased by $103 million, or 7%, to $1,574 million for the fiscal year ended September 30, 2019 from $1,471 million for the fiscal year ended September 30, 2018. Artist and repertoire costs as a percentage of revenues decreased to 35% for the fiscal year ended September 30, 2019 from 37% for the fiscal year ended September 30, 2018 due to the acquisition of EMP, which has no artist and repertoire costs and therefore reduces our total artist and repertoire costs as a percentage of revenue. Excluding EMP revenue, artist and repertoire costs were flat at 37%.

Product costs increased by $127 million, or 18%, to $827 million for the fiscal year ended September 30, 2019 from $700 million for the fiscal year ended September 30, 2018. Product costs as a percentage of revenues remained flat at 18% for each of the fiscal years ended September 30, 2019 and September 30, 2018. The overall increase in product costs relate to the acquisition of EMP of $116 million as well as revenue mix related to increasing artist services and expanded-rights revenues, which were partially offset by $82 million related to the divestment of a concert promotion business in Italy.

2018 vs. 2017

Our cost of revenues increased by $240 million, or 12%, to $2,171 million for the fiscal year ended September 30, 2018 from $1,931 million for the fiscal year ended September 30, 2017. Expressed as a percentage of revenues, cost of revenues remained flat at 54% for each of the fiscal years ended September 30, 2018 and September 30, 2017.

Artist and repertoire costs increased by $168 million, or 13%, to $1,471 million for the fiscal year ended September 30, 2018 from $1,303 million for the fiscal year ended September 30, 2017. Artist and repertoire costs as a percentage of revenues increased to 37% for the fiscal year ended September 30, 2018 from 36% for the fiscal year ended September 30, 2017. The increase was primarily driven by the mix of revenue and increased investment in artists and songwriters.

Product costs increased by $72 million, or 12%, to $700 million for the fiscal year ended September 30, 2018 from $628 million for the fiscal year ended September 30, 2017. Product costs as a percentage of revenues remained flat at 18% for each of the fiscal years ended September 30, 2018 and September 30, 2017.

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,			*2019 vs. 2018*		*2018 vs. 2017*	
	2019	**2018**	**2017**	**$ Change**	**% Change**	**$ Change**	**% Change**
General and administrative expense (1)	$ 764	$ 814	$ 684	$ (50)	-6 %	$ 130	19%
Selling and marketing expense	632	530	472	102	19 %	58	12%
Distribution expense	114	67	66	47	70 %	1	2%
Total selling, general and administrative expense	$ 1,510	$ 1,411	$ 1,222	$ 99	7 %	$ 189	16%

(1) Includes depreciation expense of $61 million, $55 million and $50 million for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017, respectively.

2019 vs. 2018

Total selling, general and administrative expense increased by $99 million, or 7%, to $1,510 million for the fiscal year ended September 30, 2019 from $1,411 million for the fiscal year ended September 30, 2018. Expressed as a percentage of revenues, selling, general and administrative expenses decreased to 34% for the fiscal year ended September 30, 2019 from 35% for the fiscal year ended September 30, 2018.

General and administrative expenses decreased by $50 million, or 6%, to $764 million for the fiscal year ended September 30, 2019 from $814 million for the fiscal year ended September 30, 2018. The decrease in general and administrative expense was primarily due to lower expense associated with the Senior Management Free Cash Flow Plan of $37 million and a decrease in severance and restructuring costs of $46 million, partially offset by higher employee-related costs. Expressed as a percentage of revenue, general and administrative expense decreased to 17% for the fiscal year ended September 30, 2019 from 20% for the fiscal year ended September 30, 2018.

Selling and marketing expense increased by $102 million, or 19%, to $632 million for the fiscal year ended September 30, 2019 from $530 million for the fiscal year ended September 30, 2018. The increase in selling and marketing expense was primarily due to an increase of $71 million relating to the acquisition of EMP and increased variable marketing expenses on higher revenue during the fiscal year. Expressed as a percentage of revenues, selling and marketing expense increased to 14% for the fiscal year ended September 30, 2019 from 13% for the fiscal year September 30, 2018. Excluding the acquisition of EMP, selling and marketing expense was flat at 13%.

Distribution expense increased by $47 million, or 70%, to $114 million for the fiscal year ended September 30, 2019 from $67 million for the fiscal year ended September 30, 2018. Expressed as a percentage of revenues, distribution expense increased to 3% for the fiscal year ended September 30, 2019 from 2% for the fiscal year ended September 30, 2018 mainly due to $35 million in costs resulting from the acquisition of EMP. Excluding the acquisition of EMP, distribution expense was flat at 2%.

2018 vs. 2017

Total selling, general and administrative expense increased by $189 million, or 16%, to $1,411 million for the fiscal year ended September 30, 2018 from $1,222 million for the fiscal year ended September 30, 2017. Expressed as a percentage of revenues,

selling, general and administrative expenses increased to 35% for the fiscal year ended September 30, 2018 from 34% for the fiscal year ended September 30, 2017.

General and administrative expenses increased by $130 million, or 19%, to $814 million for the fiscal year ended September 30, 2018 from $684 million for the fiscal year ended September 30, 2017. The increase in general and administrative expense was primarily due to increases in other employee related compensation expense, including severance and restructuring costs, of $78 million, and an increase in facilities cost due to an overlap in terms on the lease of our new Los Angeles, California headquarters with our existing office leases of $16 million. The increase was also due to an increase in expense associated with the Senior Management Free Cash Flow Plan of $6 million, which is primarily related to compensation costs associated with higher dividend payments in the 2018 fiscal year. Expressed as a percentage of revenue, general and administrative expense increased to 20% for the fiscal year ended September 30, 2018 from 19% for the fiscal year ended September 30, 2017.

Selling and marketing expense increased by $58 million, or 12%, to $530 million for the fiscal year ended September 30, 2018 from $472 million for the fiscal year ended September 30, 2017. Expressed as a percentage of revenues, selling and marketing expense remained flat at 13% for each of the fiscal years ended September 30, 2018 and September 30, 2017.

Distribution expense increased by $1 million, or 2%, to $67 million for the fiscal year ended September 30, 2018 from $66 million for the fiscal year ended September 30, 2017. Expressed as a percentage of revenues, distribution expense remained flat at 2% for each of the fiscal years ended September 30, 2018 and September 30, 2017.

Reconciliation of Net Income Attributable to Warner Music Group Corp. and Operating Income to Consolidated OIBDA

As previously described, we use OIBDA as our primary measure of financial performance. The following table reconciles operating income to OIBDA, and further provides the components from net income attributable to Warner Music Group Corp. to operating income for purposes of the discussion that follows (in millions):

	For the Fiscal Year Ended September 30,			*2019 vs. 2018*		*2018 vs. 2017*	
	2019	**2018**	**2017**	**$ Change**	**% Change**	**$ Change**	**% Change**
Net income attributable to Warner Music Group Corp.	$ 256	$ 307	$ 143	$ (51)	-17 %	$ 164	115 %
Income attributable to noncontrolling interest	2	5	6	(3)	-60 %	(1)	-17 %
Net income	258	312	149	(54)	-17 %	163	109 %
Income tax expense (benefit)	9	130	(151)	(121)	-93 %	281	— %
Income (loss) before income taxes	267	442	(2)	(175)	-40 %	444	— %
Other (income) expense	(60)	(394)	40	334	-85 %	(434)	— %
Interest expense, net	142	138	149	4	3 %	(11)	-7 %
Loss on extinguishment of debt	7	31	35	(24)	-77 %	(4)	-11 %
Operating income	356	217	222	139	64 %	(5)	-2 %
Amortization expense	208	206	201	2	1 %	5	3 %
Depreciation expense	61	55	50	6	11 %	5	10 %
OIBDA	$ 625	$ 478	$ 473	$ 147	31 %	$ 5	1 %

OIBDA

2019 vs. 2018

Our OIBDA increased by $147 million, or 31%, to $625 million for the fiscal year ended September 30, 2019 as compared to $478 million for the fiscal year ended September 30, 2018 primarily as a result of higher revenues and lower general and administrative expenses. Expressed as a percentage of total revenues, OIBDA increased to 14% for the fiscal year ended September 30, 2019 from 12% for the fiscal year ended September 30, 2018 largely due to $15 million related to the transition in timing of revenues and related costs resulting from the adoption of ASC 606, $18 million related to the acquisition of EMP, which is a lower-margin business, and lower general and administrative expenses.

2018 vs. 2017

Our OIBDA increased by $5 million, or 1%, to $478 million for the fiscal year ended September 30, 2018 as compared to $473 million for the fiscal year ended September 30, 2017 primarily as a result of higher revenue, partially offset by higher general

and administrative expenses. Expressed as a percentage of total revenues, OIBDA decreased to 12% for the fiscal year ended September 30, 2018 from 13% for the fiscal year ended September 30, 2017.

Depreciation expense

2019 vs. 2018

Our depreciation expense increased by $6 million, or 11%, to $61 million for the fiscal year ended September 30, 2019 from $55 million for the fiscal year ended September 30, 2018, primarily due to increased assets from the EMP acquisition in October 2018 and our new Los Angeles, California headquarters placed into service in April 2019.

2018 vs. 2017

Our depreciation expense increased by $5 million, or 10%, to $55 million for the fiscal year ended September 30, 2018 from $50 million for the fiscal year ended September 30, 2017, primarily due to an increase in technology and facilities capital spending.

Amortization expense

2019 vs. 2018

Amortization expense increased by $2 million, or 1%, to $208 million for the fiscal year ended September 30, 2019 from $206 million for the fiscal year ended September 30, 2018, primarily due to an increase in amortizable intangible assets related to the acquisition of EMP in October 2018, offset by the impact of foreign currency exchange rates.

2018 vs. 2017

Amortization expense increased by $5 million, or 3%, to $206 million for the fiscal year ended September 30, 2018 from $201 million for the fiscal year ended September 30, 2017, primarily due to an increase in amortizable intangible assets and the impact of foreign currency exchange rates.

Operating income

2019 vs. 2018

Our operating income increased by $139 million to $356 million for the fiscal year ended September 30, 2019 from $217 million for the fiscal year ended September 30, 2018. The increase in operating income was due to the factors that led to the increase in OIBDA.

2018 vs. 2017

Our operating income decreased by $5 million to $217 million for the fiscal year ended September 30, 2018 from $222 million for the fiscal year ended September 30, 2017. The decrease in operating income was primarily due to higher general and administrative expenses as noted above, partially offset by higher revenue.

Loss on extinguishment of debt

2019 vs. 2018

We recorded a loss on extinguishment of debt in the amount of $7 million for the fiscal year ended September 30, 2019, which represents the unamortized deferred financing costs related to the redemption of the 4.125% Senior Secured Notes (as defined later in this Annual Report) and 5.625% Senior Secured Notes (as defined later in this Annual Report), in addition to the open market purchase of the 4.875% Senior Secured Notes (as defined later in this Annual Report). We recorded a loss on extinguishment of debt in the amount of $31 million for the fiscal year ended September 30, 2018, which represents the premium paid on early redemption and unamortized deferred financing costs related to the refinancing transactions that occurred during fiscal 2018. Please refer to Note 8 of our Consolidated Financial Statements for further discussion.

2018 vs. 2017

We recorded a loss on extinguishment of debt in the amount of $31 million for the fiscal year ended September 30, 2018, which represents the premium paid on early redemption and unamortized deferred financing costs related to the June 2018 Senior Term Loan Credit Agreement Amendment (as defined later in this Annual Report), the redemption of the 6.75% Senior Notes (as defined later in this Annual Report) and the December 2017 Senior Term Loan Credit Agreement Amendment (as defined later in this

Annual Report). We recorded a loss on extinguishment of debt in the amount of $35 million for the fiscal year ended September 30, 2017, which represents the premium paid on early redemption and unamortized deferred financing costs related to the refinancing transactions that occurred during fiscal 2017. Please refer to Note 8 of our Consolidated Financial Statements for further discussion.

Interest expense, net

2019 vs. 2018

Our interest expense, net increased by $4 million, or 3% to $142 million for the fiscal year ended September 30, 2019 from $138 million for the fiscal year ended September 30, 2018. This was primarily driven by the higher debt balance from the issuance of the 3.625% Secured Notes (as defined later in this Annual Report) during the current year, offset by lower interest rates as a result of refinancing transactions and redemption activity.

2018 vs. 2017

Our interest expense, net, decreased by $11 million, or 7% to $138 million for the fiscal year ended September 30, 2018 from $149 million for the fiscal year ended September 30, 2017. This was primarily due to lower interest rates as a result of refinancing transactions and interest income on higher cash balances during the year.

Other (income) expense, net

2019 vs. 2018

Other (income) expense, net decreased by $334 million to other income of $60 million for the fiscal year ended September 30, 2019 from other income of $394 million for the fiscal year ended September 30, 2018. Other (income) expense, net for the fiscal year ended September 30, 2019 primarily includes the unrealized gain of $19 million on the mark-to-market of an equity method investment and foreign exchange currency gains on our Euro-denominated debt of $43 million, partially offset by movements in foreign exchange rates.

Other (income) expense, net for the fiscal year ended September 30, 2018 includes the gain on the Spotify share sale, net of estimated artist share and other related costs, of $382 million, gain on investments of $7 million and foreign currency gains on our Euro-denominated debt of $4 million.

2018 vs. 2017

Other (income) expense, net, increased by $434 million to other income of $394 million for the fiscal year ended September 30, 2018 from other expense of $40 million for the fiscal year ended September 30, 2017. Other (income) expense, net for the fiscal year ended September 30, 2018, includes the gain on the Spotify share sale, net of estimated artist share and other related costs of $382 million, gain on investments of $7 million and foreign currency gains on our Euro-denominated debt of $4 million.

Other (income) expense, net for the fiscal year ended September 30, 2017, includes currency exchange loss on our Euro-denominated debt of $27 million, loss on investments of $21 million, partially offset by foreign currency exchange gains on intercompany loans and derivative liabilities of $5 million.

Income tax expense (benefit)

2019 vs. 2018

Our income tax expense decreased by $121 million to $9 million for the fiscal year ended September 30, 2019 from $130 million for the fiscal year ended September 30, 2018. The net decrease of $121 million in income tax expense primarily relates to the release of $59 million of our U.S. deferred tax valuation allowance and higher tax expense of $77 million in fiscal 2018 as a result of the gain on the sale of the Spotify shares in the fiscal year ended September 30, 2018.

2018 vs. 2017

Our income tax expense (benefit) increased by $281 million to $130 million for the fiscal year ended September 30, 2018 compared to an income tax benefit of $151 million for the fiscal year ended September 30, 2017. The net increase of $281 million in income tax expense primarily relates to higher pre-tax income as a result of the gain on the Spotify share sale of $77 million and U.S. tax expense of $23 million for the reduction of our net U.S. deferred tax assets as a result of the change in the U.S. corporate statutory tax rate, as compared to a U.S. tax benefit of $125 million related to the reversal of a significant portion of our U.S. deferred tax valuation allowance and a $59 million benefit related to foreign currency losses on intra-entity loans.

Net income

2019 vs. 2018

Our net income decreased by $54 million to $258 million for the fiscal year ended September 30, 2019 from $312 million for the fiscal year ended September 30, 2018 as a result of the factors described above.

2018 vs. 2017

Our net income increased by $163 million, to $312 million for the fiscal year ended September 30, 2018 from $149 million for the fiscal year ended September 30, 2017 as a result of the factors described above. The increase in income was primarily driven by the factors described above.

Noncontrolling interest

2019 vs. 2018

There was $2 million of income attributable to noncontrolling interests for the fiscal year ended September 30, 2019 primarily due to the adoption of ASC 606. There was $5 million of income attributable to noncontrolling interests for the fiscal year ended September 30, 2018.

2018 vs. 2017

Net income attributable to noncontrolling interests was $5 million for the fiscal year ended September 30, 2018 and $6 million for the fiscal year ended September 30, 2017.

Business Segment Results

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

	For the Fiscal Year Ended September 30,			*2019 vs. 2018*		*2018 vs. 2017*	
	2019	**2018**	**2017**	**$ Change**	**% Change**	**$ Change**	**% Change**
Recorded Music							
Revenue	$ 3,840	$ 3,360	$ 3,020	$ 480	14 %	$ 340	11 %
Operating income	439	307	283	132	43 %	24	9 %
OIBDA	623	480	451	143	30 %	29	6 %
Music Publishing							
Revenue	643	653	572	(10)	-2 %	81	14 %
Operating income	92	84	81	8	10 %	3	4 %
OIBDA	166	159	152	7	4 %	7	5 %
Corporate expenses and eliminations							
Revenue elimination	(8)	(8)	(16)	—	— %	8	-50 %
Operating loss	(175)	(174)	(142)	(1)	1 %	(32)	23 %
OIBDA	(164)	(161)	(130)	(3)	2 %	(31)	24 %
Total							
Revenue	4,475	4,005	3,576	470	12 %	429	12 %
Operating income	356	217	222	139	64 %	(5)	-2 %
OIBDA	625	478	473	147	31 %	5	1 %

Recorded Music

Revenues

2019 vs. 2018

Recorded Music revenues increased by $480 million, or 14%, to $3,840 million for the fiscal year ended September 30, 2019 from $3,360 million for the fiscal year ended September 30, 2018. U.S. Recorded Music revenues were $1,656 million and $1,460 million, or 43% of consolidated Recorded Music revenues, for the fiscal year ended September 30, 2019 and September 30, 2018,

respectively. International Recorded Music revenues were $2,184 million and $1,900 million, or 57% of consolidated Recorded Music revenues, for each of the fiscal years ended September 30, 2019 and September 30, 2018, respectively.

The overall increase in Recorded Music revenue was driven by increases in digital revenue and artist services and expanded-rights revenue, partially offset by a decrease in physical revenue and licensing revenue as described in the “Total Revenues” and “Revenue by Geographical Location” sections above.

2018 vs. 2017

Recorded Music revenues increased by $340 million, or 11%, to $3,360 million for the fiscal year ended September 30, 2018 from $3,020 million for the fiscal year ended September 30, 2017. U.S. Recorded Music revenues were $1,460 million and $1,329 million, or 43% and 44% of consolidated Recorded Music revenues for the fiscal year ended September 30, 2018 and September 30, 2017, respectively. International Recorded Music revenues were $1,900 million and $1,691 million, or 57% and 56% of consolidated Recorded Music revenues for each of the fiscal years ended September 30, 2018 and September 30, 2017, respectively.

The overall increase in Recorded Music revenue was mainly driven by streaming revenue growth 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,			*2019 vs. 2018*		*2018 vs. 2017*	
	2019	**2018**	**2017**	**$ Change**	**% Change**	**$ Change**	**% Change**
Artist and repertoire costs	$ 1,178	$ 1,054	$ 964	$ 124	12%	$ 90	9%
Product costs	827	700	628	127	18%	72	12%
Total cost of revenues	$ 2,005	$ 1,754	$ 1,592	$ 251	14%	$ 162	10%

2019 vs. 2018

Recorded Music cost of revenues increased by $251 million, or 14%, to $2,005 million for the fiscal year ended September 30, 2019 from $1,754 million for the fiscal year ended September 30, 2018. Expressed as a percentage of Recorded Music revenues, cost of revenues remained flat at 52% for each of the fiscal years ended September 30, 2019 and September 30, 2018.

Artist and repertoire costs as a percentage of revenue remained constant at 31% for each of the fiscal years ended September 30, 2019 and September 30, 2018. Excluding EMP revenue, artist and repertoire costs as a percentage of revenue increased to 33% primarily driven by the mix of revenue, increased investments in artists and songwriters and the prior year benefit for advance recoveries of $10 million.

Product costs as a percentage of revenue increased to 22% for the fiscal year ended September 30, 2019 from 21% for the fiscal year ended September 30, 2018. The increase in product costs is primarily due to the acquisition of EMP, partially offset by a concert promotion business divestment in Italy.

2018 vs. 2017

Recorded Music cost of revenues increased by $162 million, or 10%, to $1,754 million for the fiscal year ended September 30, 2018 from $1,592 million for the fiscal year ended September 30, 2017. Artist and repertoire costs as a percentage of revenue decreased to 31% for the fiscal year ended September 30, 2018 from 32% for the fiscal year ended September 30, 2017 primarily due to a shift in revenue mix toward higher-margin digital revenues from lower-margin physical revenues internationally and a benefit for advance recoveries of $10 million. Product costs as a percentage of revenue remained flat at 21% for each of the fiscal years ended September 30, 2018 and September 30, 2017. Expressed as a percentage of Recorded Music revenues, cost of revenues decreased to 52% for the fiscal year ended September 30, 2018 from 53% for the fiscal year ended September 30, 2017.

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,			*2019 vs. 2018*		*2018 vs. 2017*	
	2019	**2018**	**2017**	**$ Change**	**% Change**	**$ Change**	**% Change**
General and administrative expense (1)	$ 522	$ 573	$ 478	$ (51)	-9 %	$ 95	20%
Selling and marketing expense	621	521	465	100	19 %	56	12%
Distribution expense	114	67	66	47	70 %	1	2%
Total selling, general and administrative expense	$ 1,257	$ 1,161	$ 1,009	$ 96	8 %	$ 152	15%

(1) Includes depreciation expense of $45 million, $35 million, and $32 million for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017, respectively.

2019 vs. 2018

Recorded Music selling, general and administrative expense increased by $96 million, or 8%, to $1,257 million for the fiscal year ended September 30, 2019 from $1,161 million for the fiscal year ended September 30, 2018. The decrease in Recorded Music general and administrative expense was primarily due to lower expense associated with the Senior Management Free Cash Flow Plan of $21 million and decreases in severance and restructuring costs of $44 million, partially offset by higher employee related costs. The increase in selling and marketing expense was primarily due to $71 million resulting from the acquisition of EMP and increased variable marketing expense on higher revenue in the fiscal year. The increase in distribution expense was primarily due to $35 million in costs resulting from the acquisition of EMP during the year. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense decreased to 33% for the fiscal year ended September 30, 2019 from 35% for the fiscal year ended September 30, 2018.

2018 vs. 2017

Recorded Music selling, general and administrative expense increased by $152 million, or 15%, to $1,161 million for the fiscal year ended September 30, 2018 from $1,009 million for the fiscal year ended September 30, 2017. The increase in Recorded Music general and administrative expense was primarily due to increases in other employee related compensation including severance and restructuring costs of $63 million and an increase in facilities cost due to an overlap in terms on the lease of our new Los Angeles, California headquarters with our existing office leases of $15 million. The increase was also due to an increase in expense of $1 million associated with the Senior Management Free Cash Flow Plan, which is primarily related to compensation costs associated with higher dividend payments in the 2018 fiscal year. Selling and marketing expense increased in line with the increase in revenue. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense increased to 35% for the fiscal year ended September 30, 2018 from 33% for the fiscal year ended September 30, 2017.

Operating income and OIBDA

Recorded Music OIBDA included the following amounts (in millions):

	For the Fiscal Year Ended September 30,			*2019 vs. 2018*		*2018 vs. 2017*	
	2019	**2018**	**2017**	**$ Change**	**% Change**	**$ Change**	**% Change**
Operating income	$ 439	$ 307	$ 283	$ 132	43%	$ 24	9%
Depreciation and amortization	184	173	168	11	6%	5	3%
OIBDA	$ 623	$ 480	$ 451	$ 143	30%	$ 29	6%

2019 vs. 2018

Recorded Music OIBDA increased by $143 million, or 30%, to $623 million for the fiscal year ended September 30, 2019 from $480 million for the fiscal year ended September 30, 2018 primarily as a result of higher Recorded Music revenues, $18 million related to the acquisition of EMP which is a lower-margin business and lower general and administrative expenses. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA increased to 16% for the fiscal year ended September 30, 2019 from 14% for the fiscal year ended September 30, 2018.

Recorded Music operating income increased by $132 million to $439 million for the fiscal year ended September 30, 2019 from $307 million for the fiscal year ended September 30, 2018 due to the factors that led to the increase in Recorded Music OIBDA noted above.

2018 vs. 2017

Recorded Music OIBDA increased by $29 million, or 6%, to $480 million for the fiscal year ended September 30, 2018 from $451 million for the fiscal year ended September 30, 2017 primarily as a result of higher Recorded Music revenues, partially offset by higher general and administrative expenses. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA decreased to 14% for the fiscal year ended September 30, 2018 from 15% for the fiscal year ended September 30, 2017.

Recorded Music operating income increased by $24 million to $307 million for the fiscal year ended September 30, 2018 from $283 million for the fiscal year ended September 30, 2017 due to the increase in revenue, partially offset by higher general and administrative expenses as noted above.

Music Publishing

Revenues

2019 vs. 2018

Music Publishing revenues decreased by $10 million, or 2%, to $643 million for the fiscal year ended September 30, 2019 from $653 million for the fiscal year ended September 30, 2018. U.S. Music Publishing revenues were $300 million and $294 million, or 47% and 45%, of Music Publishing revenues for the fiscal years ended September 30, 2019 and September 30, 2018, respectively. International Music Publishing revenues were $343 million and $359 million, or 53% and 55%, of Music Publishing revenues for the fiscal years ended September 30, 2019 and September 30, 2018, respectively.

The overall decrease in Music Publishing revenue was mainly driven by a decrease in revenues associated with lost administrative rights and lower market share, partially offset by the increase in digital revenue and the impact of the adoption of ASC 606, as described in the “Total Revenues” and “Revenue by Geographical Location” sections above.

2018 vs. 2017

Music Publishing revenues increased by $81 million, or 14%, to $653 million for the fiscal year ended September 30, 2018 from $572 million for the fiscal year ended September 30, 2017. U.S. Music Publishing revenues were $294 million and $258 million, or 45% of Music Publishing revenues for each of the fiscal years ended September 30, 2018 and September 30, 2017. International Music Publishing revenues were $359 million and $314 million, or 55% of Music Publishing revenues for each of the fiscal years ended September 30, 2018 and September 30, 2017.

The overall increase in Music Publishing revenue was mainly driven by the increase in digital 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,			*2019 vs. 2018*		*2018 vs. 2017*	
	2019	**2018**	**2017**	**$ Change**	**% Change**	**$ Change**	**% Change**
Artist and repertoire costs	$ 404	$ 425	$ 355	$ (21)	-5 %	$ 70	20%
Total cost of revenues	$ 404	$ 425	$ 355	$ (21)	-5 %	$ 70	20%

2019 vs. 2018

Music Publishing cost of revenues decreased by $21 million, or 5%, to $404 million for the fiscal year ended September 30, 2019 from $425 million for the fiscal year ended September 30, 2018. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues decreased to 63% for the fiscal year ended September 30, 2019 from 65% for the fiscal year ended September 30, 2018, primarily due to the adoption of ASC 606, which resulted in a shift in the timing of recognition of revenues and certain related costs from a cash to an accrual basis.

2018 vs. 2017

Music Publishing cost of revenues increased by $70 million, or 20%, to $425 million for the fiscal year ended September 30, 2018 from $355 million for the fiscal year ended September 30, 2017 due to revenue mix and increased A&R investment costs. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues increased to 65% for the fiscal year ended September 30, 2018 from 62% for the fiscal year ended September 30, 2017.

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,			*2019 vs. 2018*		*2018 vs. 2017*	
	2019	**2018**	**2017**	**$ Change**	**% Change**	**$ Change**	**% Change**
General and administrative expense (1)	$ 76	$ 74	$ 69	$ 2	3%	$ 5	7%
Selling and marketing expense	2	2	2	—	—%	—	—%
Total selling, general and administrative expense	$ 78	$ 76	$ 71	$ 2	3%	$ 5	7%

(1) Includes depreciation expense of $5 million, $7 million and $6 million for the fiscal year ended September 30, 2019, September 30, 2018 and September 30, 2017, respectively.

2019 vs. 2018

Music Publishing selling, general and administrative expense increased by $2 million, or 3%, to $78 million for the fiscal year ended September 30, 2019 as compared to $76 million for the fiscal year ended September 30, 2018. The increase in general and administrative expense was primarily due to an increase in facilities costs. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense remained flat at 12% for each of the fiscal years ended September 30, 2019 and September 30, 2018.

2018 vs. 2017

Music Publishing selling, general and administrative expense increased by $5 million, or 7%, to $76 million for the fiscal year ended September 30, 2018 as compared to $71 million for the fiscal year ended September 30, 2017. The increase in general and administrative expense was due to an increase in compensation expense of $3 million and facilities costs of $2 million. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense remained flat at 12% for each of the fiscal years ended September 30, 2018 and September 30, 2017.

Operating income and OIBDA

Music Publishing OIBDA includes the following amounts (in millions):

	For the Fiscal Year Ended September 30,			*2019 vs. 2018*		*2018 vs. 2017*	
	2019	**2018**	**2017**	**$ Change**	**% Change**	**$ Change**	**% Change**
Operating income	$ 92	$ 84	$ 81	$ 8	10 %	$ 3	4%
Depreciation and amortization	74	75	71	(1)	-1 %	4	6%
OIBDA	$ 166	$ 159	$ 152	$ 7	4 %	$ 7	5%

2019 vs. 2018

Music Publishing OIBDA increased by $7 million, or 4%, to $166 million for the fiscal year ended September 30, 2019 from $159 million for the fiscal year ended September 30, 2018. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA margin increased to 26% for the fiscal year ended September 30, 2019 from 24% for the fiscal year ended September 30, 2018. The increase was primarily due to $12 million from the adoption of ASC 606, which resulted in a shift in the timing of recognition of revenues and certain related costs from a cash to an accrual basis, partially offset by lower revenue and higher general and administrative expenses.

Music Publishing operating income increased by $8 million to $92 million for the fiscal year ended September 30, 2019 from $84 million for the fiscal year ended September 30, 2018 due to the factors that led to the increase in Music Publishing OIBDA noted above.

2018 vs. 2017

Music Publishing OIBDA increased by $7 million, or 5%, to $159 million for the fiscal year ended September 30, 2018 from $152 million for the fiscal year ended September 30, 2017 as a result of higher Music Publishing revenue, partially offset by higher artist and repertoire costs and higher general and administrative costs, as noted above. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA margin decreased to 24% for the fiscal year ended September 30, 2018 from 27% for the fiscal year ended September 30, 2017.

Music Publishing operating income increased by $3 million to $84 million for the fiscal year ended September 30, 2018 from $81 million for the fiscal year ended September 30, 2017 due to the factors that led to the increase in Music Publishing OIBDA noted above.

Corporate Expenses and Eliminations

2019 vs. 2018

Our OIBDA loss from corporate expenses and eliminations increased by $3 million to $164 million for the fiscal year ended September 30, 2019 from $161 million for the fiscal year ended September 30, 2018, which includes higher corporate related costs, partially offset by a decrease of $15 million in variable compensation associated with the Senior Management Free Cash Flow Plan.

Our operating loss from corporate expenses and eliminations increased by $1 million to $175 million for the fiscal year ended September 30, 2019 from $174 million for the fiscal year ended September 30, 2018.

2018 vs. 2017

Our OIBDA loss from corporate expenses and eliminations increased by $31 million to $161 million for the fiscal year ended September 30, 2018 from $130 million for the fiscal year ended September 30, 2017 due to costs associated with our U.S. shared services and other transformation initiatives of $16 million, an increase in our annual Access management fee of $7 million, an increase in variable compensation expense of $5 million associated with the Senior Management Free Cash Flow Plan, which is associated with higher compensation costs on dividend payments in the 2018 fiscal year.

Our operating loss from corporate expenses and eliminations increased by $32 million to $174 million for the fiscal year ended September 30, 2018 from $142 million for the fiscal year ended September 30, 2017 due to the factors that led to the increase in operating loss noted above.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition at September 30, 2019

At September 30, 2019, we had $2.974 billion of debt (which is net of $29 million of deferred financing costs), $619 million of cash and equivalents (net debt of $2.355 billion, defined as total debt, less cash and equivalents and deferred financing costs) and $289 million of Warner Music Group Corp. deficit. This compares to $2.819 billion of debt (which is net of $28 million of deferred financing costs), $514 million of cash and equivalents (net debt of $2.305 billion) and $334 million of Warner Music Group Corp. deficit at September 30, 2018.

Cash Flows

The following table summarizes our historical cash flows (in millions). The financial data for fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017 have been derived from our audited financial statements included elsewhere herein.

	For the Fiscal Year Ended September 30,		
	2019	2018	2017
Cash provided by (used in):			
Operating activities	$ 400	$ 425	$ 535
Investing activities	(376)	405	(126)
Financing activities	88	(955)	(128)

Operating Activities

Cash provided by operating activities was $400 million for the fiscal year ended September 30, 2019 compared to $425 million for the fiscal year ended September 30, 2018 and $535 million for the fiscal year ended September 30, 2017. The primary driver of the $25 million decrease in cash provided by operating activities during the current year was due to an increase in royalty advances and royalty payments, partially offset by an OIBDA increase of $147 million.

The decrease in results from operating activities for the fiscal year ended September 30, 2018 compared to the fiscal year ended September 30, 2017 reflected timing of royalty payments, partially offset by improved operating performance.

Investing Activities

Cash used in investing activities was $376 million for the fiscal year ended September 30, 2019, compared to cash provided by investing activities of $405 million for the fiscal year ended September 30, 2018 and cash used in investing activities of $126 million for the fiscal year ended September 30, 2017.

Cash used in investing activities of $376 million for the fiscal year ended September 30, 2019 consisted of $183 million related to the acquisition of EMP, net of cash and equivalents acquired, $48 million relating to the acquisition of investments, $104 million relating to capital expenditures and $41 million to acquire music publishing rights and music catalogs.

Cash provided by investing activities of $405 million for the fiscal year ended September 30, 2018 consisted of $516 million of proceeds from sale of investments which includes the Spotify share sale of $504 million, partially offset by $74 million of capital expenditures, which has increased due to costs incurred related to the build-out of our new Los Angeles, California headquarters of $28 million, $23 million of investments and acquisitions and $14 million to acquire music publishing rights.

Cash used in investing activities of $126 million for the fiscal year ended September 30, 2017 consisted of $139 million of business investments and acquisitions, including the Spinnin' Records acquisition in September 2017, $16 million to acquire music publishing rights and $44 million of capital expenditures, partially offset by $73 million of proceeds from divestitures.

Financing Activities

Cash provided by financing activities was $88 million for the fiscal year ended September 30, 2019 compared to cash used in financing activities of $955 million for the fiscal year ended September 30, 2018 and $128 million for the fiscal year ended September 30, 2017.

The $88 million of cash provided by financing activities for the fiscal year ended September 30, 2019 consisted of proceeds of $514 million from the issuance of Acquisition Corp.'s 3.625% Secured Notes due 2026, partially offset by deferred financing costs paid of $7 million, the repayment of Acquisition Corp.'s 5.625% Secured Notes due 2022 of $247 million including call premiums paid of $5 million, partial repayment of Acquisition Corp.'s 4.125% Secured Notes due 2024 of $40 million and 4.875% Secured Notes due 2024 of $30 million, for an aggregate $185 million, dividends paid of $94 million and distributions to noncontrolling interest holders of $3 million.

The $955 million of cash used in financing activities for the fiscal year ended September 30, 2018 consisted of the repayment of and deposit for Acquisition Corp.'s 6.750% Senior Notes (as defined below) of $635 million, special cash dividends paid of $925 million, call premiums paid on and redemption deposit for early redemption of $23 million, deferred financing costs paid of $12 million and a distribution to our non-controlling interest holders of $5 million, partially offset by proceeds from issuance of Acquisition Corp.'s Senior Notes (as defined below) of $325 million and proceeds from the issuance of Acquisition Corp.'s Senior Term Loan Facility of $320 million.

The $128 million of cash used in financing activities for the fiscal year ended September 30, 2017 consisted of the repayment of Acquisition Corp.'s 6.000% Senior Secured Notes due 2021 of $450 million, repayment of Acquisition Corp.'s 6.250% Senior Secured Notes due 2021 of $173 million, repayment of Acquisition Corp.'s 5.625% Secured Notes (as defined below) of $28 million, call premiums paid on early redemption of $27 million, deferred financing costs paid of $13 million, special cash dividends paid of $84 million and a distribution to our non-controlling interest holders of $5 million, partially offset by proceeds from issuance of Acquisition Corp.'s 4.125% Secured Notes (as defined below) of €345 million, proceeds from issuance of Acquisition Corp.'s 4.875% Senior Secured Notes (as defined below) of $250 million and proceeds from the amendment of Acquisition Corp.'s Senior Term Loan Facility of $22 million.

There were no drawdowns on the Revolving Credit Facility during the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017.

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 or retirement 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 twelve months.

In August 2019, we announced that we were beginning a financial transformation initiative to upgrade our information technology and finance infrastructure over the next two years, including related systems and processes, for which we expect our capital expenditures to be between $30 million and $40 million, approximately two-thirds of which is expected to be incurred in the 2020 fiscal year and the remainder of which is expected to be incurred in the 2021 fiscal year. We expect that our cash flows from operations will be sufficient to fund our capital expenditures.

Debt Financing

Since Access acquired us in 2011, we have sought to extend the maturity dates on our outstanding indebtedness, reduce interest expense and improve our debt ratings. For example, our S&P corporate credit rating has improved from B in 2017 to BB- in 2019. In addition, our weighted-average interest rate on our outstanding indebtedness has decreased from 10.5% in 2011 to 4.3% in 2019. Our nearest-term maturity date is in 2023. Subject to market conditions, we expect to continue to take opportunistic steps to extend our maturity dates and reduce related interest expense. From time to time, we may incur additional indebtedness for, among other things, working capital, repurchasing, redeeming or tendering for existing indebtedness and acquisitions or other strategic transactions.

Revolving Credit Facility

On January 31, 2018, Acquisition Corp. entered into the Revolving Credit Agreement (as defined below) 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"). The final maturity of the Revolving Credit Facility is January 31, 2023.

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 $180 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. 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 1.75% 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) the overnight federal funds rate plus 0.5% and (z) the one-month Revolving LIBOR plus 1.00% per annum, plus, in each case, 0.75% per annum.

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 certain minimum principal amounts, without premium or penalty. Voluntary prepayments of borrowings under the Revolving Credit Facility are permitted at any time in certain minimum principal amounts, subject to reimbursement of the lenders' redeployment costs actually incurred in the case of a prepayment of LIBOR-based borrowings other than on the last day of the relevant interest period.

Senior Term Loan Facility

Acquisition Corp. is party to a $1.326 billion senior secured term loan credit facility, pursuant to a credit agreement dated November 1, 2012, as amended or supplemented (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"). The loans outstanding under the Senior Term Loan Facility mature on November 1, 2023.

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 4.50:1.00.

Interest Rates and Fees

Term loan borrowings under the Senior Term Loan Credit Agreement bear interest at a floating rate measured by reference to, at Acquisition Corp.'s option, either (i) an adjusted London inter-bank offered rate, LIBOR, not less than 0.00% per annum plus a borrowing margin of 2.125% per annum or (ii) an alternative base rate plus a borrowing margin of 1.125% per annum.

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 4.50:1.00 or 4.00:1.00, 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 adjusted LIBOR borrowings other than on the last day of the relevant interest period.

Secured Notes

General

On July 27, 2016, Acquisition Corp. issued $300 million in aggregate principal amount of its 5.000% Secured Notes under the Indenture, dated as of November 1, 2012 (the "Senior Secured 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 Fifth Supplemental Indenture, dated as of July 27, 2016, among Acquisition Corp., the guarantors party thereto and the Trustee (the "5.000% Supplemental Indenture"). On October 18, 2016, Acquisition Corp. issued $250 million in aggregate principal amount of its 4.875% Secured Notes and €345 million in aggregate principal amount of its 4.125% Secured Notes under the Senior Secured Base Indenture, as supplemented by (i) in the case of the 4.875% Secured Notes, the Sixth Supplemental Indenture, dated as of October 18, 2016 (the "4.875% Supplemental Indenture") and (ii) in the case of the 4.125% Notes, the Seventh Supplemental Indenture, dated as of October 18, 2016, in each case among Acquisition Corp., the guarantors party thereto and the Trustee (the "4.125% Supplemental Indenture"). On October 9, 2018, Acquisition Corp. issued €250 million in aggregate principal amount of its 3.625% Secured Notes under the Senior Secured Base Indenture, as supplemented by the Eighth Supplemental Indenture, dated as of October 9, 2018, among Acquisition Corp., the guarantors party thereto and the Trustee (the "3.625% Supplemental Indenture"). On April 30, 2019, Acquisition Corp. issued €195 million in aggregate principal amount of additional 3.625% Secured Notes under the Senior Secured Base Indenture, as supplemented by the Ninth Supplemental Indenture, dated as of April 30, 2019, among Acquisition Corp., the guarantors party thereto and the Trustee (the "Additional 3.625% Supplemental Indenture" and, the Senior Secured Base Indenture, collectively with the 5.000% Supplemental Indenture, the 4.875% Supplemental Indenture, the 4.125% Supplemental Indenture, the 3.625% Supplemental Indenture or the Additional 3.625% Supplemental Indenture, as applicable, the "Secured Notes Indenture").

Optional Redemption

5.000% Secured Notes

On or after August 1, 2019, Acquisition Corp. may redeem all or a portion of the 5.000% 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 5.000% Secured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on August 1 of the years indicated below:

Year	Percentage
2019	102.500%
2020	101.250%
2021 and thereafter	100.000%

4.875% Secured Notes

On or after November 1, 2019, Acquisition Corp. may redeem all or a portion of the 4.875% 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 4.875% Secured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on November 1 of the years indicated below:

Year	Percentage
2019	103.656%
2020	102.438%
2021	101.219%
2022 and thereafter	100.000%

4.125% Secured Notes

On or after November 1, 2019, Acquisition Corp. may redeem all or a portion of the 4.125% 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 4.125% Secured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on November 1 of the years indicated below:

Year	Percentage
2019	103.094%
2020	102.063%
2021	101.031%
2022 and thereafter	100.000%

3.625% Secured Notes

At any time prior to October 15, 2021, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 3.625% Secured Notes (including the aggregate principal amount of any additional securities constituting 3.625% Secured Notes) issued under the Secured Notes Indenture, at its option, at a redemption price equal to 103.625% of the principal amount of the 3.625% Secured Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of 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 the 3.625% Secured Notes originally issued under the Secured Notes Indenture (including the aggregate principal amount of any additional securities constituting 3.625% Secured Notes issued under the Secured Notes Indenture) remains outstanding immediately after the occurrence of such redemption; and

(2) the redemption occurs within 180 days of the date of, and may be conditioned upon, the closing of such equity offering.

The 3.625% Secured Notes may be redeemed, in whole or in part, at any time prior to October 15, 2021, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the 3.625% 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 October 15, 2021, Acquisition Corp. may redeem all or a portion of the 3.625% 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 3.625% Secured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on October 15 of the years indicated below:

Year	Percentage
2021	101.813%
2022	100.906%
2023 and thereafter	100.000%

In addition, during any twelve-month period prior to October 15, 2021, Acquisition Corp. will be entitled to redeem up to 10% of the original aggregate principal amount of the 3.625% 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).

Senior Notes

General

On March 14, 2018, Acquisition Corp. issued $325 million in aggregate principal amount of 5.500% Senior Notes due 2026 under the Indenture, dated as of April 9, 2014 (the "Senior Notes Base Indenture"), among Acquisition Corp., the guarantors party thereto and the Trustee, as supplemented by the fifth supplemental indenture thereto, dated as of March 14, 2018 (the "Senior Notes Supplemental Indenture" and, together with the Senior Notes Base Indenture, the "Senior Notes Indenture"), among Acquisition Corp., the guarantors party thereto and the Trustee.

Optional Redemption

At any time prior to April 15, 2021, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of the Senior Notes (including the aggregate principal amount of any additional securities constituting the same series) issued under the Senior Notes Indenture, at its option, at a redemption price equal to 105.500% of the principal amount of the Senior Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption (subject to the rights of holders of the Senior 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 the Senior Notes originally issued under the Senior Notes Indenture (including the aggregate principal amount of any additional securities constituting the Senior Notes issued under the Senior Notes Indenture) remains outstanding immediately after the occurrence of such redemption; and (2) the redemption occurs within 180 days of the date of, and may be conditioned upon, the closing of such equity offering.

The Senior Notes may be redeemed, in whole or in part, at any time prior to April 15, 2021, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the Senior 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, 2021, Acquisition Corp. may redeem all or a portion of the Senior 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 Senior 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
2021	102.750%
2022	101.375%
2023 and thereafter	100.000%

General Terms of Our Indebtedness

Certain terms of the Senior Credit Facilities and certain terms of each series of notes under our Secured Notes Indenture and Senior Notes Indenture are described below.

Ranking

The indebtedness incurred pursuant to the Revolving Credit Facility and the Senior Term Loan Facility and the 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. The 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 and any future senior secured credit facility; are effectively senior to Acquisition Corp.'s unsecured senior indebtedness, including the Senior Notes, to the extent of the value of the collateral securing the senior secured obligations; 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)).

The Senior Notes are Acquisition Corp.'s senior unsecured obligations. The Senior 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; are effectively subordinated to Acquisition Corp.'s secured senior indebtedness, 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 and Security

The obligations under each of the Revolving Credit Facility, the Senior Term Loan Facility, the Secured Notes Indenture and the Senior Notes Indenture are guaranteed by each direct and indirect U.S. restricted subsidiary of Acquisition Corp., other than certain excluded subsidiaries. All obligations of Acquisition Corp. and each guarantor under the Revolving Credit Facility, the Senior Term Loan Facility and the Secured Notes Indenture are secured by substantially all the assets of Acquisition Corp and each subsidiary guarantor. In addition, each series of notes issued pursuant to the Secured Notes Indenture and the Senior Notes Indenture have been fully and unconditionally guaranteed by the Company.

Covenants, Representations and Warranties

The Revolving Credit Facility, the Senior Term Loan Facility, the Secured Notes and the Senior Notes contain customary representations and warranties and customary affirmative and negative covenants. The negative covenants are incurrence-based high yield covenants and limit the ability of Acquisition Corp. 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 its restricted subsidiaries to pay dividends to it or make other intercompany transfers; create liens; transfer or sell assets; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; enter into certain transactions with its affiliates; and designate subsidiaries as unrestricted subsidiaries.

The negative covenants are subject to customary exceptions. There are no financial covenants included in the Revolving Credit Agreement, other than a springing leverage ratio of 4.75:1.00 (with no step-down), which is not tested unless at the end of a fiscal quarter the outstanding amount of loans and drawings under letters of credit which have not been reimbursed exceeds $54,000,000. There are no financial covenants included in the Senior Term Loan Credit Agreement, the Secured Notes Indenture or the Senior Notes Indenture.

Events of Default

Events of default under the Revolving Credit Facility, the Senior Term Loan Facility and the Secured Notes Indenture include 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, in each case subject to customary thresholds, notice and grace period provisions.

Change of Control

Upon the occurrence of a change of control, which is defined in the Secured Notes Base Indenture and the Senior Notes Base Indenture, each holder of the Secured Notes and the Senior Notes has the right to require Acquisition Corp. to repurchase some or all of such holder’s Secured Notes and Senior 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.

Existing Debt as of September 30, 2019

As of September 30, 2019, our long-term debt, all of which was issued by Acquisition Corp., was as follows (in millions):

Revolving Credit Facility (a)	$	—
Senior Term Loan Facility due 2023 (b)		1,313
5.000% Senior Secured Notes due 2023 (c)		298
4.125% Senior Secured Notes due 2024 (d)		336
4.875% Senior Secured Notes due 2024 (e)		218
3.625% Senior Secured Notes due 2026 (f)		488
5.500% Senior Notes due 2026 (g)		321
Total long-term debt, including the current portion (h)	$	2,974

(a) Reflects $180 million of commitments under the Revolving Credit Facility available at September 30, 2019, less letters of credit outstanding of approximately $13 million at September 30, 2019. There were no loans outstanding under the Revolving Credit Facility at September 30, 2019.
(b) Principal amount of $1.326 billion less unamortized discount of $3 million and unamortized deferred financing costs of $10 million at September 30, 2019.
(c) Principal amount of $300 million less unamortized deferred financing costs of $2 million at September 30, 2019.
(d) Face amount of €311 million. Above amount represents the dollar equivalent of such note at September 30, 2019. Principal amount of $340 million less unamortized deferred financing costs of $4 million at September 30, 2019.
(e) Principal amount of $220 million less unamortized deferred financing costs of $2 million at September 30, 2019.
(f) Face amount of €445 million at September 30, 2019. Above amount represents the dollar equivalent of such note at September 30, 2019. Principal amount of $487 million, an additional issuance premium of $8 million, less unamortized deferred financing costs of $7 million at September 30, 2019.
(g) Principal amount of $325 million less unamortized deferred financing costs of $4 million at September 30, 2019.

(h) Principal amount of debt of $2.998 billion, an additional issuance premium of $8 million, less unamortized discount of $3 million and unamortized deferred financing costs of $29 million at September 30, 2019.

Dividends

The Company's ability to pay dividends is restricted by covenants in the indentures governing its notes and in the credit agreements for the Senior Term Loan Facility and the Revolving Credit Facility.

On September 23, 2019, the Company's board of directors declared a cash dividend of $206.25 million which was paid to stockholders on October 4, 2019 and recorded as an accrual as of September 30, 2019. For fiscal year 2019, the Company paid an aggregate of $93.75 million in cash dividends to stockholders. For fiscal year 2018, the Company paid an aggregate of $925 million in cash dividends to stockholders, which reflected proceeds from the sale of Spotify shares acquired in the ordinary course of business. For fiscal year 2017, the Company paid an aggregate of $84 million in cash dividends to stockholders.

In the first quarter of fiscal year 2019, the Company instituted a regular quarterly dividend policy whereby it intends to pay a modest regular quarterly dividend in each fiscal quarter and a variable dividend for the fourth fiscal quarter in an amount commensurate with cash expected to be generated from operations in such fiscal year, in each case, after taking into account other potential uses for cash, including acquisitions, investment in our business and repayment of indebtedness. The declaration of each dividend will continue to be at the discretion of the Board.

Covenant Compliance

The Company was in compliance with its covenants under its outstanding notes, the Revolving Credit Facility and the Senior Term Loan Facility as of September 30, 2019.

On January 18, 2019, we delivered a notice to the administrative agent under each of the Revolving Credit Facility and the Senior Term Loan Facility and the trustee under the indentures governing each of the Senior Notes and the Secured Notes changing the Fixed GAAP Date, as defined under each such facility and the indentures, to October 1, 2018.

The 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. Our ability to borrow funds under the Revolving Credit Facility may depend upon our ability to meet the leverage ratio test at the end of a fiscal quarter to the extent we have drawn a certain amount of revolving loans. 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); (6) transaction expenses; and (7) equity-based compensation expense. It also includes an adjustment for the pro forma impact of certain projected cost savings and synergies. The indentures governing our notes and the Senior Term Loan Facility use financial measures called "Consolidated EBITDA" or "EBITDA" that have the same definition as Consolidated EBITDA as defined under the Revolving Credit Agreement.

Consolidated EBITDA is presented herein because it is a material component of the leverage ratio contained in the Revolving Credit Agreement. Non-compliance with the leverage ratio could result in the inability to use the 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 income, which is a U.S. GAAP measure of our operating results, to Consolidated EBITDA as defined, and the calculation of the Senior Secured Indebtedness to Consolidated EBITDA ratio, which we refer to as the Leverage Ratio, under the Revolving Credit Agreement for the most recently ended four fiscal quarters, or the twelve months ended September 30, 2019. The terms and related calculations are defined in the Revolving Credit Agreement. All amounts in the reconciliation below reflect Acquisition Corp. (in millions, except ratios):

	Twelve Months Ended September 30, 2019
Net Income	$ 258
Income tax expense	9
Interest expense, net	142
Depreciation and amortization	269
Loss on extinguishment of debt (a)	7
Net gain on divestitures and sale of securities (b)	(4)
Restructuring costs (c)	27
Net hedging and foreign exchange gains (d)	(38)
Management fees (e)	11
Transaction costs (f)	3
Business optimization expenses (g)	22
Equity-based compensation expense (h)	49
Other non-cash charges (i)	(19)
Pro forma impact of specified transactions (j)	1
Pro Forma Consolidated EBITDA	**$ 737**
Senior Secured Indebtedness (k)	**$ 2,472**
Leverage Ratio (l)	**3.35x**

(a) Reflects net loss incurred on the early extinguishment of our debt incurred as part of the October 2018 partial redemption of the 4.125% Secured Notes, the October 2018 open market purchase of the 4.875% Senior Secured Notes, the November 2018 partial redemption of 5.625% Secured Notes and the May 2019 redemption of the remaining 5.625% Secured Notes.
(b) Reflects net gain on divestitures and sale of securities.
(c) Reflects severance costs and other restructuring related expenses.
(d) Reflects net losses from hedging activities and unrealized losses due to foreign exchange on our Euro-denominated debt and intercompany transactions.
(e) Reflects management fees paid to Access, including an annual fee and related expenses. 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.
(f) Reflects expenses related to transaction and other related costs.
(g) Reflects primarily costs associated with IT systems updates and other transformation initiatives.
(h) Reflects equity-based compensation expense related to the Warner Music Group Corp. Senior Management Free Cash Flow Plan.
(i) Reflects non-cash activity, including the unrealized gains on the mark-to-market of an equity method investment.
(j) Reflects pro forma adjustments related to the acquisition of EMP in October 2018.
(k) Reflects the principal balance of senior secured debt at Acquisition Corp. of approximately $2.672 billion less cash of $200 million.

(l) Reflects the ratio of Senior Secured Indebtedness, including Revolving Credit Agreement Indebtedness, to Pro Forma Consolidated EBITDA as of the twelve months ended September 30, 2019. This is calculated net of cash and equivalents of the Company as of September 30, 2019 not exceeding $200 million. If the outstanding aggregate principal amount of borrowings and drawings under letters of credit which have not been reimbursed under the Revolving Credit Facility is greater than $54 million at the end of a fiscal quarter, the maximum leverage ratio permitted under our Revolving Credit Facility is 4.75:1.00. The Company's Revolving Credit Facility does not impose any "leverage ratio" restrictions on the Company when the aggregate principal amount of borrowings and drawings under letters of credit, which have not been reimbursed under the Revolving Credit Facility, is less than or equal to $54 million at the end of a fiscal quarter.

Summary

Management believes that funds generated from our operations and borrowings under the Revolving Credit Facility and available cash and equivalents 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 the 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 formats in the recorded music and music publishing industries. We and our affiliates continue to evaluate opportunities to, from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to pay dividends or prepay outstanding debt or repurchase or retire 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, from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, we may seek to refinance the Senior Credit Facilities or our outstanding debt or 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, 2019, 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	3-5 years	After 5 years	Total
			(in millions)		
Senior Secured Notes (1)	$ —	$ —	$ 300	$ 1,047	$ 1,347
Interest on Senior Secured Notes (1)	57	115	100	56	328
Senior Notes (1)	—	—	—	325	325
Interest on Senior Notes (1)	18	36	36	36	126
Senior Term Loan Facility (1)	—	—	1,326	—	1,326
Interest on Senior Term Loan Facility (1)	52	100	55	—	207
Operating leases (2)	52	97	92	207	448
Artist, songwriter and co-publisher commitments (3)	428	*	*	*	428
Management Fees (4)	11	18	18	**	47
Minimum funding commitments to investees and other obligations (5)	7	3	—	—	10
Total firm commitments and outstanding debt	$ 625	$ 369	$ 1,927	$ 1,671	$ 4,592

The following is a description of our firmly committed contractual obligations at September 30, 2019:

(1) Outstanding debt obligations consist of the Senior Term Loan Facility, the Senior Secured Notes and the Senior Notes. These obligations have been presented based on the principal amounts due, current and long term as of September 30, 2019. Amounts do not include any fair value adjustments, bond premiums, discounts or unamortized deferred financing costs.

(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 $1 million of total sublease income expected to be received under non-cancelable agreements.

(3) The Company routinely enters into long-term commitments with recording artists, songwriters and publishers for the future delivery of music. 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 $428 million at September 30, 2019. The aggregate firm commitments expected for the next twelve-month period based on contractual obligations and the Company's expected release schedule approximates $229 million at September 30, 2019.

(4) Pursuant to the Management Agreement, the Company will pay Access an annual fee equal to the greater of (i) a base amount, which is the sum of (x) $6 million and (y) 1.5% of the aggregate amount of Acquired EBITDA (as defined in the Management Agreement) and was approximately $9 million for the fiscal year ended September 30, 2019, and (ii) 1.5% of the EBITDA (as defined in the indenture governing the redeemed WMG Holdings Corp. 13.75% Senior Notes due 2019) of the Company for the applicable fiscal year, plus expenses. The Company 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. The future balances disclosed are representative of the base amount of the annual fee only.

(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 $12 million and $15 million of liabilities for uncertain tax positions as of September 30, 2019 and September 30, 2018, 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, 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 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. 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 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 discounted cash flow ("DCF") analysis. 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. 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 formats continues to decline and the revenue from sales of digital formats 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.

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, 2019, we had recorded goodwill in the amount of $1.761 billion, including $1.297 billion and $464 million for our Recorded Music and Music Publishing businesses, 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 2019 impairment analysis did not result in an impairment of the Company's goodwill and other indefinite-lived intangible assets.

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

Revenue and Cost Recognition

Revenues

Recorded Music

As required by FASB ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), the Company recognizes revenue when, or as, control of the promised services or goods is transferred to our customers and in an amount that reflects the consideration the Company is contractually due in exchange for those services or goods.

Revenues from the sale or license of Recorded Music products through digital distribution channels are typically recognized when sale or usage occurs based on usage reports received from the customer. These licenses typically contain a single performance obligation, which is ongoing access to all intellectual property in an evolving content library, predicated on: (1) the business practice and contractual ability to remove specific content without a requirement to replace the content and without impact to minimum royalty guarantees and (2) the contracts not containing a specific listing of content subject to the license. For certain licenses where the consideration is fixed and the intellectual property being licensed is static, revenue is recognized at the point in time when control of the licensed content is transferred to the customer.

Revenues from the sale of physical Recorded Music products are recognized upon delivery, which occurs once the product has been shipped and control has 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.

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 musical compositions, the mechanical reproduction of musical compositions on recorded media including digital formats and the use of musical compositions in synchronization with visual images. Music publishing royalties, except for synchronization royalties, generally are recognized when the sale or usage occurs. The most common form of consideration for publishing contracts is sales- and usage-based royalties. The collecting societies submit usage reports, typically with payment for royalties due, often on a quarterly or biannual reporting period, in arrears. Royalties are recognized as the sale or usage occurs based upon usage reports and, when these reports are not available, royalties are estimated based on historical data, such as recent royalties reported, company-specific information with respect to changes in repertoire, industry information and other relevant trends. Synchronization revenue is typically recognized as revenue when control of the license is transferred to the customer in accordance with ASC 606.

Refund Liabilities and Allowance for Doubtful Accounts

Management's estimate of Recorded Music physical 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 the Company's 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.

Based on management's analysis of sales returns, refund liabilities of $23 million and $28 million were established at September 30, 2019 and September 30, 2018, respectively. Based on management's analysis of uncollectible accounts, reserves of $17 million and $17 million were established at September 30, 2019 and September 30, 2018, respectively. The ratio of our receivable allowances and refund liabilities to gross accounts receivables was 5% at September 30, 2019 and 9% at September 30, 2018.

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 certain cases these advances represent a multi-album release or multi-musical composition obligation and the number of album releases and musical compositions 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 and licensing of future and existing albums or musical compositions. 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 music, the current and past popularity of the genre of music that the music 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 musical compositions 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 $378 million and $276 million of advances in our balance sheet at September 30, 2019 and September 30, 2018, 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 common stock. The Company's Senior Management Free Cash Flow Plan is classified as a liability rather than equity under FASB ASC Topic 718, *Compensation—Stock Compensation* ("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 publicly 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 quarterly 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. There are two general valuation approaches that are used in estimating fair value of a business that is considered to be a going concern: the income approach and market approach. As of September 30, 2019, the Company derived its fair value through the application of the income approach using a discounted cash flow model, which is then adjusted for non-operating assets and the estimated fair value of the Company's debt. The Company's valuation approach did not include the application of the market approach due to no directly comparable market transactions.

Under the income approach, the cash flows employed in the discounted cash flows analysis are based on management's most recent budget 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 formats continues to decline and the revenue from sales of digital formats 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 stock price.

New Accounting Principles

In May 2014, the FASB issued guidance codified in ASC 606, which replaces the guidance in former ASC 605, *Revenue Recognition* and ASC 928-605, *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.

The Company adopted ASC 606 on October 1, 2018, using the modified retrospective method to all contracts not completed as of the date of adoption. The reported results as of and for the fiscal year ended September 30, 2019 reflect the application of the new standard, while the reported results for the fiscal year ended September 30, 2018 have not been adjusted to reflect the new standard and were prepared under prior revenue recognition accounting guidance.

The adoption of ASC 606 resulted in a change in the timing of revenue recognition in the Company's Music Publishing segment as well as international broadcast rights within the Company's Recorded Music segment. Under the new revenue recognition rules, revenue is recorded based on best estimates available in the period of sale or usage whereas revenue was previously recorded when cash was received for both the licensing of publishing rights and international Recorded Music broadcast fees. Additionally, for certain licenses where the consideration is fixed and the intellectual property being licensed is static, revenue is recognized at the point in time when control of the licensed content is transferred to the customer. As a result of adopting ASC 606, the Company recorded a decrease to the opening accumulated deficit of approximately $139 million, net of tax, as of October 1, 2018. The Company also reclassified $28 million from accounts receivable to other current liabilities related to estimated refund liabilities for its physical sales.

We will adopt ASC 842, *Leases*, on October 1, 2019, which will result in most of our operating leases being recognized as right of use assets and operating lease liabilities on our consolidated balance sheet. None of the remaining 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 included herein, 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, 2019, other than as described below, there have been no material changes to the Company's exposure to market risk since September 30, 2018.

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. companies for the sale or licensing of U.S.-based music and merchandise 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 Euro, British pound sterling, Japanese yen, Canadian dollar, Swedish krona, Australian dollar, Brazilian real, Korean won and Norwegian krone, and in many cases we have natural hedges where we have expenses associated with local operations that offset the revenue in local currency and our Euro-denominated debt, which can offset declines in the Euro. As of September 30, 2019, 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, 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, 2019, 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 $2.998 billion of principal debt outstanding at September 30, 2019, of which $1.326 billion was variable-rate debt and $1.672 billion was fixed-rate debt. As such, we are exposed to changes in interest rates. At September 30, 2019, 56% of the Company's debt was at a fixed rate. In addition, at September 30, 2019, we have the option under all of our floating rate debt under the Senior Term Loan Facility to select a one, two, three or six month LIBOR rate. To manage interest rate risk on $820 million of U.S. dollar-denominated variable-rate debt, the Company has entered into interest rate swaps to effectively convert the floating interest rates to a fixed interest rate on a portion of its variable-rate debt.

Based on the level of interest rates prevailing at September 30, 2019, the fair value of the Company's fixed-rate and variable-rate debt was approximately $3.080 billion. Further, as of September 30, 2019, based on the amount of the Company's fixed-rate debt, a 25 basis point increase in the level of interest rates would have minimal impact on the fair value of the fixed-rate debt and a 25 basis point decrease in the level of interest rates would increase the fair value of the fixed-rate debt by approximately $8 million. This potential fluctuation 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.

Inflation Risk

Inflationary factors such as increases in overhead costs may adversely affect our results of operations. We do not believe that inflation has had a material effect on our business, financial condition or results of operations to date. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases for services. Our inability or failure to do so could harm our business, financial condition or results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WARNER MUSIC GROUP CORP.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Contents

Audited Financial Statements:

Management's Report on Internal Control Over Financial Reporting	68
Report of Independent Registered Public Accounting Firm on Consolidated Financial Statements	69
Consolidated Balance Sheets as of September 30, 2019 and September 30, 2018	70
Consolidated Statements of Operations for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017	71
Consolidated Statements of Comprehensive Income for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017	72
Consolidated Statements of Cash Flows for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017	73
Consolidated Statements of (Deficit) Equity for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017	74
Notes to Consolidated Audited Financial Statements	75
Quarterly Financial Information	109
Supplementary Information—Consolidating Financial Statements	111
Schedule II—Valuation and Qualifying Accounts	123

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 Exchange Act. 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 U.S. GAAP. 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 U.S. GAAP, 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 (2013 Framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In conducting this assessment, management excluded the acquired business of EMP, which was acquired on October 10, 2018. EMP represents approximately 4% of the Company's total assets as of September 30, 2019 and approximately 5% of the Company's total revenues for the fiscal year then ended. EMP had $5 million in net income during the fiscal year ended September 30, 2019 as compared to consolidated net income of the Company of $258 million. Based on the results of this evaluation, our management concluded that our internal control over financial reporting was effective as of September 30, 2019.

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Warner Music Group Corp.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Warner Music Group Corp. and subsidiaries (the Company) as of September 30, 2019 and 2018, the related consolidated statements of operations, comprehensive income, cash flows, and (deficit) equity, for each of the years in the three-year period ended September 30, 2019, and the related notes, and the related supplementary information, and financial statement schedule II as listed in the accompanying index to Item 8 (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2019, in conformity with U.S. generally accepted accounting principles.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for revenue recognition as of October 1, 2018 due to the adoption of ASC Topic 606, Revenue from Contracts with Customers.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company’s auditor since 2015.

New York, New York
November 27, 2019

COEX-
9.19

Warner Music Group Corp.

Consolidated Balance Sheets

	September 30, 2019	September 30, 2018
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$ 619	$ 514
Accounts receivable, net of allowances of $17 million and $45 million	775	447
Inventories	74	42
Royalty advances expected to be recouped within one year	170	123
Prepaid and other current assets	53	50
Total current assets	1,691	1,176
Royalty advances expected to be recouped after one year	208	153
Property, plant and equipment, net	300	229
Goodwill	1,761	1,692
Intangible assets subject to amortization, net	1,723	1,851
Intangible assets not subject to amortization	151	154
Deferred tax assets, net	38	11
Other assets	145	78
Total assets	$ 6,017	$ 5,344
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 260	$ 281
Accrued royalties	1,567	1,396
Accrued liabilities	492	423
Accrued interest	34	31
Deferred revenue	180	208
Other current liabilities	286	34
Total current liabilities	2,819	2,373
Long-term debt	2,974	2,819
Deferred tax liabilities, net	172	165
Other noncurrent liabilities	321	307
Total liabilities	$ 6,286	$ 5,664
Equity:		
Common stock ($0.001 par value; 10,000 shares authorized; 1,060 and 1,052 shares issued and outstanding as of September 30, 2019 and September 30, 2018, respectively)	$ —	$ —
Additional paid-in capital	1,128	1,128
Accumulated deficit	(1,177)	(1,272)
Accumulated other comprehensive loss, net	(240)	(190)
Total Warner Music Group Corp. deficit	(289)	(334)
Noncontrolling interest	20	14
Total equity	(269)	(320)
Total liabilities and equity	$ 6,017	$ 5,344

See accompanying notes

COEX-
9.19

Warner Music Group Corp.

Consolidated Statements of Operations

	Fiscal Year Ended September 30, 2019	Fiscal Year Ended September 30, 2018	Fiscal Year Ended September 30, 2017
		(in millions)	
Revenues	$ 4,475	$ 4,005	$ 3,576
Costs and expenses:			
Cost of revenue	(2,401)	(2,171)	(1,931)
Selling, general and administrative expenses (a)	(1,510)	(1,411)	(1,222)
Amortization expense	(208)	(206)	(201)
Total costs and expenses	(4,119)	(3,788)	(3,354)
Operating income	356	217	222
Loss on extinguishment of debt	(7)	(31)	(35)
Interest expense, net	(142)	(138)	(149)
Other income (expense)	60	394	(40)
Income (loss) before income taxes	267	442	(2)
Income tax (expense) benefit	(9)	(130)	151
Net income	258	312	149
Less: Income attributable to noncontrolling interest	(2)	(5)	(6)
Net income attributable to Warner Music Group Corp.	$ 256	$ 307	$ 143
(a) Includes depreciation expense of:	$ (61)	$ (55)	$ (50)

See accompanying notes

COEX-
9.19

Warner Music Group Corp.

Consolidated Statements of Comprehensive Income

	Fiscal Year Ended September 30, 2019	Fiscal Year Ended September 30, 2018	Fiscal Year Ended September 30, 2017
		(in millions)	
Net income	$ 258	$ 312	$ 149
Other comprehensive (loss) income, net of tax:			
Foreign currency adjustment	(34)	(13)	30
Deferred (loss) gain on derivative financial instruments	(11)	3	—
Minimum pension liability	(5)	1	7
Other comprehensive (loss) income, net of tax	(50)	(9)	37
Total comprehensive income	208	303	186
Less: Income attributable to noncontrolling interest	(2)	(5)	(6)
Comprehensive income attributable to Warner Music Group Corp.	$ 206	$ 298	$ 180

See accompanying notes

COEX-
9.19

Warner Music Group Corp.

Consolidated Statements of Cash Flows

	Fiscal Year Ended September 30, 2019	Fiscal Year Ended September 30, 2018	Fiscal Year Ended September 30, 2017
		(in millions)	
Cash flows from operating activities			
Net income	$ 258	$ 312	$ 149
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	269	261	251
Unrealized (gains) losses and remeasurement of foreign-denominated loans	(28)	(3)	24
Deferred income taxes	(68)	66	(192)
Loss on extinguishment of debt	7	31	35
Net (gain) loss on divestitures and investments	(20)	(389)	17
Non-cash interest expense	6	6	8
Equity-based compensation expense	50	62	70
Changes in operating assets and liabilities:			
Accounts receivable, net	(90)	(43)	(60)
Inventories	3	(3)	1
Royalty advances	(110)	31	17
Accounts payable and accrued liabilities	3	82	48
Royalty payables	130	22	136
Accrued interest	3	(10)	3
Deferred revenue	(4)	(4)	22
Other balance sheet changes	(9)	4	6
Net cash provided by operating activities	400	425	535
Cash flows from investing activities			
Acquisition of music publishing rights and music catalogs, net	(41)	(14)	(16)
Capital expenditures	(104)	(74)	(44)
Investments and acquisitions of businesses, net of cash received	(231)	(23)	(139)
Proceeds from the sale of investments	—	516	73
Net cash (used in) provided by investing activities	(376)	405	(126)
Cash flows from financing activities			
Proceeds from issuance of Acquisition Corp. 4.125% Senior Secured Notes	—	—	380
Proceeds from issuance of Acquisition Corp. 4.875% Senior Secured Notes	—	—	250
Proceeds from issuance of Acquisition Corp. 5.500% Senior Notes	—	325	—
Proceeds from supplement of Acquisition Corp. Senior Term Loan Facility	—	320	22
Proceeds from issuance of Acquisition Corp. 3.625% Senior Secured Notes	514	—	—
Repayment of Acquisition Corp. 4.125% Senior Secured Notes	(40)	—	—
Repayment of Acquisition Corp. 4.875% Senior Secured Notes	(30)	—	—
Repayment of Acquisition Corp. 5.625% Senior Secured Notes	(247)	—	(28)
Repayment of Acquisition Corp. 6.000% Senior Secured Notes	—	—	(450)
Repayment of Acquisition Corp. 6.250% Senior Secured Notes	—	—	(173)
Repayment of and redemption deposit for Acquisition Corp. 6.750% Senior Notes	—	(635)	—
Call premiums paid and deposit on early redemption of debt	(5)	(23)	(27)
Deferred financing costs paid	(7)	(12)	(13)
Distribution to noncontrolling interest holder	(3)	(5)	(5)
Dividends paid	(94)	(925)	(84)
Net cash provided by (used in) financing activities	88	(955)	(128)
Effect of exchange rate changes on cash and equivalents	(7)	(8)	7
Net increase (decrease) in cash and equivalents	105	(133)	288
Cash and equivalents at beginning of period	514	647	359
Cash and equivalents at end of period	$ 619	$ 514	$ 647

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of (Deficit) Equity

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. Equity	Noncontrolling Interest	Total (Deficit) Equity
	Shares	Value						
	(in millions, except share amounts)							
Balance at September 30, 2016	1,055	$ —	$ 1,128	$ (715)	$ (218)	$ 195	$ 15	$ 210
Net income	—	—	—	143	—	143	6	149
Dividends	—	—	—	(84)	—	(84)	—	(84)
Other comprehensive income, net of tax	—	—	—	—	37	37	—	37
Disposal of noncontrolling interest related to divestiture	—	—	—	—	—	—	(3)	(3)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(5)	(5)
Other	—	—	—	2	—	2	2	4
Balance at September 30, 2017	1,055	$ —	$ 1,128	$ (654)	$ (181)	$ 293	$ 15	$ 308
Net income	—	—	—	307	—	307	5	312
Dividends	—	—	—	(925)	—	(925)	—	(925)
Other comprehensive loss, net of tax	—	—	—	—	(9)	(9)	—	(9)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(6)	(6)
Other	(3)	—	—	—	—	—	—	—
Balance at September 30, 2018	1,052	$ —	$ 1,128	$ (1,272)	$ (190)	$ (334)	$ 14	$ (320)
Cumulative effect of ASC 606 adoption	—	—	—	139	—	139	11	150
Net income	—	—	—	256	—	256	2	258
Dividends	—	—	—	(300)	—	(300)	—	(300)
Other comprehensive loss, net of tax	—	—	—	—	(50)	(50)	—	(50)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(3)	(3)
Other	8	—	—	—	—	—	(4)	(4)
Balance at September 30, 2019	1,060	$ —	$ 1,128	$ (1,177)	$ (240)	$ (289)	$ 20	$ (269)

See accompanying notes

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 entertainment 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 New York Stock Exchange (the "NYSE"). The Company continues to voluntarily file with the U.S. Securities and Exchange Commission (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") as provided for in certain covenants contained in the instruments covering its outstanding indebtedness. All of the Company's common stock is owned by affiliates of Access.

Recorded Music Operations

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

In the United States, our Recorded Music business is conducted principally through our major record labels—Atlantic Records and Warner Records. In October 2018, we launched Elektra Music Group in the United States as a standalone label group, which comprises the Elektra, Fueled by Ramen and Roadrunner labels. Our Recorded Music business also includes Rhino Entertainment, a division that specializes in marketing our recorded music catalog through compilations, reissuances of previously released music and video titles and releasing previously unreleased material from our vault. We also conduct our Recorded Music business through a collection of additional record labels including Asylum, Big Beat, Canvasback, East West, Erato, FFRR, Nonesuch, Parlophone, Reprise, Sire, Spinnin', Warner Classics and Warner Music Nashville.

Outside the United States, our Recorded Music business is conducted in more than 60 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, selling, marketing and promoting their music. In most cases, we also market, promote, distribute and sell the music of those recording artists for whom our domestic record labels have international rights. In certain smaller markets, we license the right to distribute and sell our music to non-affiliated third-party record labels.

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

In addition to our music being sold in physical retail outlets, our music is also sold in physical form to online physical retailers, such as Amazon.com, barnesandnoble.com and bestbuy.com, and distributed in digital form to an expanded universe of digital partners, including streaming services such as those of Amazon, Apple, Deezer, SoundCloud, Spotify, Tencent Music Entertainment Group and YouTube, radio services such as iHeart Radio and SiriusXM and download services such as Apple's iTunes and Google Play.

We have integrated the marketing of digital content into all aspects of our business, including artists and repertoire ("A&R") and distribution. Our business development executives work closely with A&R departments to ensure that while music 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 attributable to each distribution channel varies by region and proportions may change as the introduction of new technologies continues. As one of the world's largest music entertainment companies, 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 such artists in other aspects of their careers. Under these agreements, we provide services to and participate in recording artists' activities outside the traditional recorded music business such as touring, merchandising and sponsorships. We have built and acquired artist services capabilities and platforms for marketing and distributing 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 merchandising, VIP ticketing, fan clubs, 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 our recording artists and allows us to more effectively connect recording artists and fans.

Music Publishing Operations

While Recorded Music is focused on marketing, promoting, distributing and licensing a particular recording of a musical composition, Music Publishing is an intellectual property business focused on generating revenue from uses of the musical 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 musical compositions.

The operations of our Music Publishing business are conducted principally through Warner Chappell Music, our global music publishing company headquartered in Los Angeles with operations in over 60 countries through various subsidiaries, affiliates and non-affiliated licensees. We own or control rights to more than 1.4 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 80,000 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 and gospel. Warner Chappell Music also administers the music and soundtracks of several third-party television and film producers and studios. We have an extensive production music catalog 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, 2019 ended on September 27, 2019, the fiscal year ended September 30, 2018 ended on September 28, 2018 and the fiscal year ended September 30, 2017 ended on September 29, 2017. 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.

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.

Refund Liabilities and Allowance for Doubtful Accounts

Management's estimate of Recorded Music physical 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 the Company's 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. As of September 30, 2019 and September 30, 2018, Spotify represented 13% and 18%, respectively, of the Company's accounts receivable balance. No other single customer accounted for more than 10% of accounts receivable in either period. The Company, by policy, routinely assesses the financial strength of its customers. 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 collecting societies around the world. Collecting 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 merchandise, vinyl, CDs, DVDs and other 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 thirteen 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.

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 is tested annually for impairment as of July 1 and at any time upon the occurrence of certain events or changes in circumstances. The Company has the option to perform a qualitative assessment to determine if an impairment is more likely than not to have occurred. If the Company can support the conclusion that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the Company would not need to perform the two-step impairment test for that reporting unit. If the Company cannot support such a conclusion or the Company does not elect to perform the qualitative assessment then 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 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.

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 Company has the option to perform a qualitative assessment to determine if an impairment is more likely than not to have occurred. In the qualitative assessment, the Company must evaluate the totality of qualitative factors, including any recent fair value measurements, that impact whether an indefinite-lived intangible asset other than goodwill has a carrying amount that more likely than not exceeds its fair value. The Company must proceed to conduct a quantitative analysis if the Company (i) determines that such an impairment is more likely than not to exist or (ii) forgoes the qualitative assessment entirely. Under the quantitative assessment, the impairment test for identifiable indefinite-lived intangible

assets consists of 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, then an impairment loss is recognized in an amount equal to that excess. The Company generally determines the fair value of an indefinite-lived intangible asset using a discounted cash flow ("DCF") analysis, such as the relief from royalty method, 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 606, *Revenue from Contracts with Customers* ("ASC 606"), the Company recognizes revenue when, or as, control of the promised services or goods is transferred to our customers and in an amount that reflects the consideration the Company is contractually due in exchange for those services or goods.

Revenues from the sale or license of Recorded Music products through digital distribution channels are typically recognized when sale or usage occurs based on usage reports received from the customer. These licenses typically contain a single performance obligation, which is ongoing access to all intellectual property in an evolving content library, predicated on: (1) the business practice and contractual ability to remove specific content without a requirement to replace the content and without impact to minimum royalty guarantees and (2) the contracts not containing a specific listing of content subject to the license. For certain licenses where the consideration is fixed and the intellectual property being licensed is static, revenue is recognized at the point in time when control of the licensed content is transferred to the customer.

Revenues from the sale of Recorded Music products through digital distribution channels are typically recognized when sale or usage occurs based on usage reports received from the customer. Revenues from the sale of physical Recorded Music products are recognized upon delivery, which occurs once the product has been shipped and control has 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.

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 musical compositions, the mechanical reproduction of musical compositions on recorded media including digital formats and the use of musical compositions in synchronization with visual images. Music publishing royalties, except for

synchronization royalties, generally are recognized when the sale or usage occurs. The most common form of consideration for publishing contracts is sales- and usage-based royalties. The collecting societies submit usage reports, typically with payment for royalties due, often on a quarterly or biannual reporting period, in arrears. Royalties are recognized as the sale or usage occurs based upon usage reports and, when these reports are not available, royalties are estimated based on historical data, such as recent royalties reported, company-specific information with respect to changes in repertoire, industry information and other relevant trends. Synchronization revenue is typically recognized as revenue when control of the license is transferred to the customer in accordance with ASC 606.

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 musical compositions. 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 musical compositions 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 $108 million, $104 million and $97 million for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017, 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.

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 and continues to be effective through September 30, 2019.

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 carryforwards 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. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). In accordance with ASC 740, the Company recorded the impacts 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

Adoption of New Revenue Recognition Standard

In May 2014, the FASB issued guidance codified in ASC 606 which replaces the guidance in former ASC 605, *Revenue Recognition,* and ASC 928-605, *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.

The Company adopted ASC 606 on October 1, 2018, using the modified retrospective method to all contracts not completed as of the date of adoption. The reported results as of and for the fiscal year ended September 30, 2019 reflect the application of the new standard, while the reported results for the fiscal year ended September 30, 2018 have not been adjusted to reflect the new standard and were prepared under prior revenue recognition accounting guidance.

The adoption of ASC 606 resulted in a change in the timing of revenue recognition in the Company's Music Publishing segment as well as international broadcast rights within the Company's Recorded Music segment. Under the new revenue recognition rules, revenue is recorded based on best estimates available in the period of sale or usage whereas revenue was previously recorded when cash was received for both the licensing of publishing rights and international Recorded Music broadcast fees. Additionally, for certain licenses where the consideration is fixed and the intellectual property being licensed is static, revenue is recognized at the point in time when control of the licensed content is transferred to the customer. As a result of adopting ASC 606, the Company recorded a decrease to the opening accumulated deficit of approximately $139 million, net of tax, as of October 1, 2018. The Company also reclassified $28 million from accounts receivable to other current liabilities related to estimated refund liabilities for its physical sales.

The following table provides the cumulative effect of the changes made to the opening balance sheet, as of October 1, 2018, from the adoption of ASC 606 and which primarily relates to the accrual of licensing revenue in the period of sale or usage.

	September 30, 2018	Impact of Adoption	October 1, 2018
		(in millions)	
Assets			
Accounts receivable, net	$ 447	$ 257	$ 704
Total current assets	1,176	257	1,433
Other assets	78	15	93
Total assets	$ 5,344	$ 272	$ 5,616
Liabilities and Equity			
Accrued royalties	$ 1,396	$ 79	$ 1,475
Accrued liabilities	423	(1)	422
Deferred revenue	208	(27)	181
Other current liabilities	34	33	67
Total current liabilities	2,373	84	2,457
Deferred tax liabilities, net	165	37	202
Other noncurrent liabilities	307	1	308
Total liabilities	$ 5,664	$ 122	$ 5,786
Equity:			
Accumulated deficit	(1,272)	139	(1,133)
Noncontrolling interest	14	11	25
Total equity	(320)	150	(170)
Total liabilities and equity	$ 5,344	$ 272	$ 5,616

The disclosures of the impact of adoption on the consolidated statement of operations for the fiscal year ended September 30, 2019, the consolidated balance sheet as of September 30, 2019, and the consolidated statement of cash flows for the fiscal year ended September 30, 2019 are as follows:

	Fiscal Year Ended September 30, 2019		
	As Reported	Balances without adoption of ASC 606	Effect of Change
		(in millions)	
Revenue	$ 4,475	$ 4,447	$ 28
Cost and expenses:			
Cost of revenue	(2,401)	(2,389)	(12)
Operating income	356	340	16
Income before income taxes	267	251	16
Income tax expense	(9)	(5)	(4)
Net income	258	246	12
Less: Income attributable to noncontrolling interest	(2)	(4)	2
Net income attributable to Warner Music Group Corp.	$ 256	$ 242	$ 14

	September 30, 2019		
	As Reported	Balances without adoption of ASC 606	Effect of Change
		(in millions)	
Assets			
Accounts receivable, net	$ 775	$ 495	$ 280
Total current assets	1,691	1,411	280
Other assets	145	135	10
Deferred tax assets, net	38	38	—
Total assets	$ 6,017	$ 5,727	$ 290
Liabilities and Equity			
Accounts payable	$ 260	$ 261	$ (1)
Accrued royalties	1,567	1,474	93
Accrued liabilities	492	493	(1)
Deferred revenue	180	216	(36)
Other current liabilities	286	259	27
Total current liabilities	2,819	2,737	82
Deferred tax liabilities, net	172	131	41
Other noncurrent liabilities	321	317	4
Total liabilities	6,286	6,159	127
Equity:			
Accumulated deficit	(1,177)	(1,331)	154
Noncontrolling interest	20	11	9
Total equity	(269)	(432)	163
Total liabilities and equity	$ 6,017	$ 5,727	$ 290

	Fiscal Year Ended September 30, 2019		
	As Reported	Balances without adoption of ASC 606	Effect of Change
		(in millions)	
Cash flows from operating activities			
Net income	$ 258	$ 246	$ 12
Deferred income taxes	(68)	(72)	4
Changes in operating assets and liabilities:			
Accounts receivable, net	(90)	(67)	(23)
Accounts payable and accrued liabilities	3	1	2
Royalty advances	(110)	(124)	14
Deferred revenue	(4)	5	(9)
Other balance sheet changes	(9)	(9)	—
Net cash provided by operating activities	400	400	—
Effect of exchange rate changes on cash and equivalents	(7)	(7)	—
Net increase in cash and equivalents	105	105	—
Cash and equivalents at beginning of period	514	514	—
Cash and equivalents at end of period	$ 619	$ 619	$ —

Recently Adopted Accounting Pronouncements

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). This ASU will require that equity investments, except those investments under the equity method of accounting, are measured at fair value with changes in fair value recognized in net income. The Company may elect to measure equity investments that do not have a readily determinable fair value at cost minus impairment, if any, plus or minus changes resulting from observable prices. The Company adopted ASU 2016-01 on October 1, 2018 and has elected to use the measurement alternative to measure its equity investments without readily determinable fair values. This guidance was applied prospectively and did not have a significant impact on the Company's financial statements. For the fiscal year ended September 30, 2019, there were no observable price change events that were completed related to its equity investments without readily determinable fair values.

In August 2016, the FASB issued ASU 2016-15, *Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). This ASU provides specific guidance of how certain cash receipts and cash payments should be presented and classified in the statement of cash flows. ASU 2016-15 is effective for annual periods beginning after December 15, 2017, and interim periods within those years. The Company adopted ASU 2016-15 in the first quarter of fiscal 2019 and this adoption did not have a significant impact on the Company's financial statements.

In October 2016, the FASB issued ASU 2016-16, *Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory* ("ASU 2016-16"). This ASU requires the recognition of current and deferred income taxes for intra-entity asset transfers when the transaction occurs. ASU 2016-16 is effective for annual periods beginning after December 15, 2017, and interim periods within those years. The Company adopted ASU 2016-16 in the first quarter of fiscal 2019 and this adoption did not have a significant impact on the Company's financial statements.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations* ("ASU 2017-01"), to clarify the definition of a business, which establishes a process to determine when an integrated set of assets and activities can be deemed a business combination. The Company adopted ASU 2017-01 in the first quarter of fiscal 2019 and this adoption did not have a significant impact on the Company's financial statements.

In February 2018, FASB issued ASU 2018-02, *Income Statement—Reporting Comprehensive Income* ("ASU 2018-02"). This ASU allows a reclassification from accumulated other comprehensive income to accumulated deficit for stranded tax effects resulting from the Tax Act. ASU 2018-02 is effective for all entities for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. The Company adopted ASU 2018-02 in the first quarter of fiscal 2019 and this adoption did not have a significant impact on the Company's financial statements.

Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"), which established a new ASC Topic 842 ("ASC 842"). This ASU establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. ASU 2016-02 will be effective for annual periods beginning after December 15, 2018, and interim periods within those years. Earlier adoption is permitted. In July 2018, the FASB issued ASU 2018-11, *Leases – Targeted Improvements* ("ASU 2018-11"), which allows for retrospective application with the recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Under this option, entities would not need to apply ASC 842 (along with its disclosure requirements) to the comparative prior periods presented.

The Company will adopt ASU 2016-02 as of October 1, 2019, using the optional transition method provided by ASU 2018-11. The Company is finalizing the evaluation of the adoption impact, but estimates the adoption of ASU 2016-02 will result in the recognition of ROU assets and lease liabilities of approximately $360 million upon adoption, primarily related to real estate leases. Additionally, the Company will include expanded disclosures related to the amount, timing and judgments of the Company's accounting for leases.

Upon transition, the Company expects to elect the "package of three" practical expedient provided by ASC 842 and therefore will not (1) reassess whether any expired or existing contracts are or contain a lease, (2) reassess the lease classification for expired or existing leases and (3) reassess initial direct costs for any existing leases. Rather, the Company will retain the conclusions reached for these items under ASC 840.

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"). This ASU improves certain aspects of the hedge accounting model including making more risk management strategies eligible for hedge accounting and simplifying the assessment of hedge effectiveness. ASU 2017-12 is effective for all annual periods beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted and requires a prospective adoption with a cumulative-effect adjustment to accumulated deficit as of the beginning of the fiscal year of adoption for existing hedging relationships. The adoption of this standard is not expected to have a significant impact on the Company's financial statements.

3. Revenue Recognition

For our operating segments, Recorded Music and Music Publishing, the Company accounts for a contract when it has legally enforceable rights and obligations and collectability of consideration is probable. The Company identifies the performance obligations and determines the transaction price associated with the contract, which is then allocated to each performance obligation, using management's best estimate of standalone selling price for arrangements with multiple performance obligations. Revenue is recognized when, or as, control of the promised services or goods is transferred to the Company's customers, and in an amount that reflects the consideration the Company is contractually due in exchange for those services or goods. An estimate of variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Certain of the Company's arrangements include licenses of intellectual property with consideration in the form of sales- and usage-based royalties. Royalty revenue is recognized when the subsequent sale or usage occurs using the best estimates available of the amounts that will be received by the Company.

Disaggregation of Revenue

The Company's revenue consists of the following categories, which aggregate into the segments – Recorded Music and Music Publishing:

	For the Fiscal Year Ended September 30,		
	2019	2018	2017
	(in millions)		
Revenue by Type			
Digital	$ 2,343	$ 2,019	$ 1,692
Physical	559	630	667
Total Physical and Digital	2,902	2,649	2,359
Artist services and expanded-rights	629	389	385
Licensing	309	322	276
Total Recorded Music	3,840	3,360	3,020
Performance	183	212	197
Digital	271	237	187
Mechanical	55	72	65
Synchronization	120	119	112
Other	14	13	11
Total Music Publishing	643	653	572
Intersegment eliminations	(8)	(8)	(16)
Total Revenues	$ 4,475	$ 4,005	$ 3,576
Revenue by Geographical Location			
U.S. Recorded Music	$ 1,656	$ 1,460	$ 1,329
U.S. Music Publishing	300	294	258
Total U.S.	1,956	1,754	1,587
International Recorded Music	2,184	1,900	1,691
International Music Publishing	343	359	314
Total International	2,527	2,259	2,005
Intersegment eliminations	(8)	(8)	(16)
Total Revenues	$ 4,475	$ 4,005	$ 3,576

Recorded Music

Recorded Music mainly involves selling, marketing, distribution and licensing of recorded music produced by the Company's recording artists. Recorded Music revenues are derived from four main sources, which include digital, physical, artist services and expanded-rights and licensing.

Digital revenues are generated from the expanded universe of digital partners, including digital streaming services and download services. These licenses typically contain a single performance obligation, which is ongoing access to all intellectual property in an evolving content library, predicated on: (1) the business practice and contractual ability to remove specific content without a requirement to replace the content and without impact to minimum royalty guarantees and (2) the contracts not containing a specific listing of content subject to the license. Digital licensing contracts are generally long-term with consideration in the form of sales- and usage-based royalties that are typically received monthly. Certain contracts contain non-recoupable fixed fees or minimum guarantees, which are recoupable against royalties. Upon contract inception, the Company will assess whether a shortfall or breakage is expected (i.e., where the minimum guarantee will not be recouped through royalties) in order to determine timing of revenue recognition for the fixed fee or minimum guarantee.

For fixed fee and minimum guarantee contracts where breakage is expected, the total transaction price (fixed fee or minimum guarantee) is typically recognized on a straight-line basis or by other appropriate measures of progress over the contractual term. The Company updates its assessment of the transaction price each reporting period to see if anticipated royalty earnings exceed the minimum guarantee. For contracts where breakage is not expected, royalties are recognized as revenue as sales or usage occurs based upon the licensee's usage reports and, when these reports are not available, revenue is based on historical data, industry information and other relevant trends.

Additionally, for certain licenses where the consideration is fixed and the intellectual property being licensed is static, revenue is recognized at the point in time when control of the licensed content is transferred to the customer.

Physical revenues are generated from the sale of physical products such as vinyl, CDs and DVDs. Revenues from the sale of physical Recorded Music products are recognized upon transfer of control to the customer, which typically occurs once the product has been shipped and the ability to direct use and obtain substantially all of the benefit from the asset 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.

Artist services and expanded-rights revenues are generated from artist services businesses and participations in expanded-rights associated with artists, including sponsorship, fan clubs, artist websites, merchandising, touring, concert promotion, ticketing and artist and brand management. Artist services and expanded-rights contracts are generally short term. Revenue is recognized as or when services are provided (e.g., at time of an artist's event) assuming collectability is probable. In some cases, the Company is reliant on the artist to report revenue generating activities. For certain artist services and expanded-rights contracts, collectability is not considered probable until notification is received from the artist's management.

Licensing revenues represent 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 video games. In certain territories, the Company may also receive royalties when 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. Licensing contracts are generally short term. For fixed-fee contracts, revenue is recognized at the point in time when control of the licensed content is transferred to the customer. Royalty based contracts are recognized as the underlying sales or usage occurs.

Music Publishing

Music Publishing acts as a copyright owner and/or administrator of the musical compositions and generates revenues related to the exploitation of musical compositions (as opposed to recorded music). Music publishers generally receive royalties from the use of the musical compositions in public performances, digital and physical recordings and in combination with visual images. Music publishing revenues are derived from five main sources: mechanical, performance, synchronization, digital and other.

Performance revenues are received when the musical 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 musical compositions in staged theatrical productions. Digital revenues are generated with respect to the musical compositions being embodied in recordings licensed to digital streaming services and digital download services and for digital performance. Mechanical revenues are generated with respect to the musical compositions embodied in recordings sold in any physical format or configuration such as vinyl, CDs and DVDs. Synchronization revenues represent the right to use the composition in combination with visual images such as in films or television programs, television commercials and video games as well as from other uses such as in toys or novelty items and merchandise. Other revenues represent earnings for use in printed sheet music and other uses. Digital and synchronization revenue recognition is similar for both Recorded Music and Music Publishing, therefore refer to the discussion within Recorded Music.

Included in these revenue streams, excluding synchronization and other, are licenses with performing rights organizations or collecting societies (e.g., ASCAP, BMI, SESAC and GEMA), which are long-term contracts containing a single performance obligation, which is ongoing access to all intellectual property in an evolving content library. The most common form of consideration for these contracts is sales- and usage-based royalties. The collecting societies submit usage reports, typically with payment for royalties due, often on a quarterly or biannual reporting period, in arears. Royalties are recognized as the sale or usage occurs based upon usage reports and, when these reports are not available, royalties are estimated based on historical data, such as recent royalties reported, company-specific information with respect to changes in repertoire, industry information and other relevant trends. Also included in these revenue streams are smaller, short-term contracts for specified content, which generally involve a fixed fee. For fixed-fee contracts, revenue is recognized at the point in time when control of the license is transferred to the customer.

The Company excludes from the measurement of transaction price all taxes assessed by governmental authorities that are both (i) imposed on and concurrent with a specific revenue-producing transaction and (ii) collected from customers.

Sales Returns and Uncollectible Accounts

In accordance with practice in the recorded music industry and as customary in many territories, certain physical revenue products (such as CDs and DVDs) are sold to customers with the right to return unsold items. 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 return trends, current economic conditions, changes in customer demand and commercial acceptance of the Company’s 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 and records an asset for the value of the returned goods and liability for the amounts expected to be refunded.

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. The time between the Company’s issuance of an invoice and payment due date is not significant; customer payments that are not collected in advance of the transfer of promised services or goods are generally due no later than 30 days from invoice date. Based on this information, management provides a reserve for the estimated amounts believed to be uncollectible.

Based on management’s analysis of sales returns, refund liabilities of $23 million and $28 million were established at September 30, 2019 and September 30, 2018, respectively.

Based on management’s analysis of uncollectible accounts, reserves of $17 million and $17 million were established at September 30, 2019 and September 30, 2018, respectively.

Principal versus Agent Revenue Recognition

The Company reports revenue on a gross or net basis based on management’s assessment of whether the Company acts as a principal or agent in the transaction. The determination of whether the Company acts as a principal or an agent in a transaction is based on an evaluation of whether the Company controls the good or service before transfer to the customer. When the Company concludes that it controls the good or service before transfer to the customer, the Company is considered a principal in the transaction and records revenue on a gross basis. When the Company concludes that it does not control the good or service before transfer to the customer but arranges for another entity to provide the good or service, the Company acts as an agent and records revenue on a net basis in the amount it earns for its agency service.

In the normal course of business, the Company acts as an intermediary with respect to certain payments received from third parties. For example, the Company distributes music content on behalf of third-party record labels. Based on the above guidance, the Company records the distribution of content on behalf of third-party record labels on a gross basis, subject to the terms of the contract, as the Company controls the content before transfer to the customer. Conversely, recorded music compilations distributed by other record companies where the Company has a right to participate in the profits are recorded on a net basis.

Deferred Revenue

Deferred revenue principally relates to fixed fees and minimum guarantees received in advance of the Company's performance or usage by the licensee. Reductions in deferred revenue are a result of the Company's performance under the contract or usage by the licensee.

Deferred revenue increased $402 million during the twelve months ended September 30, 2019 related to cash received from customers for fixed fees and minimum guarantees in advance of performance, including amounts recognized in the period. Revenues of $159 million were recognized during the twelve months ended September 30, 2019 related to the balance of deferred revenue at October 1, 2018. There were no other significant changes to deferred revenue during the reporting period.

Performance Obligations

The Company recognized revenue of $51 million from performance obligations satisfied in previous periods for the twelve month period ended September 30, 2019.

Wholly and partially unsatisfied performance obligations represent future revenues not yet recorded under long-term intellectual property licensing contracts. Revenues expected to be recognized in the future related to performance obligations that are unsatisfied at September 30, 2019 are as follows (in millions):

	FY20	FY21	FY22	Thereafter	Total
			(in millions)		
Remaining performance obligations	$ 142	$ 94	$ 7	$ —	$ 243
Total	$ 142	$ 94	$ 7	$ —	$ 243

4. Acquisition of EMP

On October 10, 2018, Warner Music Group Germany Holding GmbH ("WMG Germany"), a limited liability company under the laws of Germany and an indirect subsidiary of Warner Music Group Corp., closed its previously announced acquisition (the "Acquisition") of certain shares of E.M.P. Merchandising Handelsgesellschaft mbH, a limited liability company under the laws of Germany, all of the share capital of MIG Merchandising Investment GmbH, a limited liability company under the laws of Germany ("MIG"), certain shares of Large Popmarchandising BVBA, a limited liability company under the laws of Belgium ("Large") and each of EMP Merchandising Handelsgesellschaft mbH and MIG's direct and indirect subsidiaries (the "Subsidiaries" and, together with EMP Merchandising Handelsgesellschaft mbH, MIG and Large, "EMP") from funds associated with Sycamore Partners, pursuant to the Sale and Purchase Agreement, dated as of September 11, 2018, by and between SP Merchandising Holding GmbH & Co. KG, a limited partnership under the laws of Germany, and WMG Germany ("Acquisition Agreement"). The cash consideration paid at closing of the Acquisition was approximately €166 million, which reflects an agreed enterprise value of EMP of approximately €155 million (equivalent to approximately $180 million), as adjusted for, among other items, net debt and estimates of working capital of EMP. The final purchase price paid was determined to be €165 million after finalization of purchase price adjustments, including working capital and other items.

The Acquisition was accounted for in accordance with ASC 805, using the acquisition method of accounting. The assets and liabilities of EMP, 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.

The excess of the 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 resulting goodwill has been allocated to the Company's Recorded Music reportable segment. The recognized goodwill will not be deductible for income tax purposes. Any impairment charges made in future periods associated with goodwill will not be tax deductible.

The table below presents (i) the Acquisition consideration as it relates to the acquisition of EMP by WMG Germany and (ii) the allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed on the closing date of October 10, 2018 (in millions):

Purchase Price	€	155
Working Capital		10
Final Purchase Price	€	165
Foreign Currency Rate at October 10, 2018		1.15
Final Purchase Price in U.S. dollars	$	190
Fair value of assets acquired and liabilities assumed		
Cash and equivalents	$	7
Accounts receivable, net		3
Inventories		37
Other current assets		5
Property plant and equipment		32
Intangible assets		81
Accounts payable		(18)
Other current liabilities		(11)
Deferred revenue		(7)
Deferred tax liabilities		(25)
Other noncurrent liabilities		(3)
Fair value of assets acquired and liabilities assumed		101
Goodwill recorded		89
Total purchase price allocated	$	190

During fiscal 2019, the Company performed a preliminary allocation in the first and third quarters, which was finalized as of September 30, 2019. The acquisition accounting was based on final determinations of fair value and allocations of purchase price to the identifiable assets and liabilities acquired, including determination of the final working capital adjustment made pursuant to the mechanism set forth in the Acquisition Agreement.

Pro Forma Financial Information

The following unaudited pro forma information has been presented as if the Acquisition occurred on October 1, 2017. This information is based on historical results of operations, adjusted to give effect to pro forma events that are (i) directly attributable to the Acquisition; (ii) factually supportable; and (iii) expected to have a continuing impact on the Company's combined 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 Acquisition had taken place at the beginning of fiscal 2018.

	Fiscal Year Ended September 30, 2019	Fiscal Year Ended September 30, 2018
	(in millions)	
Revenue	$ 4,480	$ 4,239
Operating income	356	215
Net income attributable to Warner Music Group Corp.	256	304

Actual results related to EMP included in the consolidated statement of operations for the twelve months ended September 30, 2019 relate to the transition period from October 10, 2018 to September 30, 2019 and consist of revenues of $240 million and operating income of $8 million.

5. Comprehensive (Loss) Income

Comprehensive (loss) income, which is reported in the accompanying consolidated statements of (deficit) equity, consists of net (loss) income and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net (loss) income. 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 tax benefit of $4 million:

	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, 2016	$ (201)	$ (17)	$ —	$ (218)
Other comprehensive income (a)	30	8	—	38
Amounts reclassified from accumulated other comprehensive income	—	(1)	—	(1)
Balance at September 30, 2017	$ (171)	$ (10)	$ —	$ (181)
Other comprehensive loss (a)	(13)	1	3	(9)
Balance at September 30, 2018	$ (184)	$ (9)	$ 3	$ (190)
Other comprehensive loss (a)	(34)	(5)	(11)	(50)
Balance at September 30, 2019	$ (218)	$ (14)	$ (8)	$ (240)

(a) Includes historical foreign currency translation related to certain intra-entity transactions that are no longer of a long-term investment nature of $0 million, $0 million and $(19) million during the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017, respectively.

6. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	September 30, 2019	September 30, 2018
	(in millions)	
Land	$ 12	$ 11
Buildings and improvements	186	109
Furniture and fixtures	25	11
Computer hardware and software	337	302
Construction in progress	20	42
Machinery and equipment	27	11
Gross Property, Plant and Equipment	$ 607	$ 486
Less accumulated depreciation	(307)	(257)
Net Property, Plant and Equipment	$ 300	$ 229

7. 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, 2017	$ 1,221	$ 464	$ 1,685
Acquisitions	12	—	12
Other adjustments	(5)	—	(5)
Balance at September 30, 2018	$ 1,228	$ 464	$ 1,692
Acquisitions	89	—	89
Other adjustments	(20)	—	(20)
Balance at September 30, 2019	$ 1,297	$ 464	$ 1,761

The increase in goodwill during the fiscal year ended September 30, 2019 primarily relates to the EMP acquisition, which resulted in an increase in goodwill of $89 million. Please refer to Note 4 of our Consolidated Financial Statements for further discussion. The increase in goodwill during the fiscal year ended September 30, 2018 primarily relates to finalizing the purchase accounting allocation for the Spinnin' Records acquisition, which resulted in an increase in goodwill of $10 million. The other adjustments during both the fiscal years ended September 30, 2019 and September 30, 2018 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 2019 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, 2019	September 30, 2018
		(in millions)	
Intangible assets subject to amortization:			
Recorded music catalog	10 years	$ 855	$ 870
Music publishing copyrights	26 years	1,539	1,540
Artist and songwriter contracts	13 years	841	864
Trademarks	18 years	53	12
Other intangible assets	7 years	59	26
Total gross intangible assets subject to amortization		3,347	3,312
Accumulated amortization		(1,624)	(1,461)
Total net intangible assets subject to amortization		1,723	1,851
Intangible assets not subject to amortization:			
Trademarks and tradenames	Indefinite	151	154
Total net other intangible assets		$ 1,874	$ 2,005

The Company performs its annual indefinite-lived intangible assets 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 indefinite-lived intangible assets may not be recoverable. The performance of the annual fiscal 2019 impairment analysis did not result in an impairment of the Company's indefinite-lived intangible assets.

The intangible balances presented include the final purchase accounting allocations resulting from the acquisitions of EMP and Spinnin' Records for the fiscal years ended September 30, 2019 and September 30, 2018, respectively.

Amortization

Based on the amount of intangible assets subject to amortization at September 30, 2019, the expected amortization for each of the next five fiscal years and thereafter are as follows:

	Fiscal Years Ended September 30,
	(in millions)
2020	$ 182
2021	181
2022	173
2023	138
2024	107
Thereafter	942
	$ 1,723

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 primarily established in the accounting for the Merger and the PLG Acquisition.

8. Debt

Debt Capitalization

Long-term debt, all of which was issued by Acquisition Corp., consists of the following:

	September 30, 2019	September 30, 2018
	(in millions)	
Revolving Credit Facility (a)	$ —	$ —
Senior Term Loan Facility due 2023 (b)	1,313	1,310
5.625% Senior Secured Notes due 2022 (c)	—	246
5.000% Senior Secured Notes due 2023 (d)	298	297
4.125% Senior Secured Notes due 2024 (e)	336	399
4.875% Senior Secured Notes due 2024 (f)	218	247
3.625% Senior Secured Notes due 2026 (g)	488	—
5.500% Senior Notes due 2026 (h)	321	320
Total long-term debt, including the current portion (i)	$ 2,974	$ 2,819

(a) Reflects $180 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $13 million and $8 million at September 30, 2019 and September 30, 2018, respectively. There were no loans outstanding under the Revolving Credit Facility at September 30, 2019 or September 30, 2018.

(b) Principal amount of $1.326 billion less unamortized discount of $3 million and $4 million and unamortized deferred financing costs of $10 million and $12 million at September 30, 2019 and September 30, 2018, respectively.

(c) On May 16, 2019, Acquisition Corp. redeemed the remaining $221 million of its outstanding 5.625% Senior Notes due 2022. The Company recorded a loss on extinguishment of debt of approximately $4 million as a result of the debt redemption, which represents the premium paid on early redemption and unamortized deferred financing costs.

(d) Principal amount of $300 million less unamortized deferred financing costs of $2 million and $3 million at September 30, 2019 and September 30, 2018, respectively.

(e) Face amount of €311 million and €345 million at September 30, 2019 and September 30, 2018, respectively. Above amounts represent the dollar equivalent of such note at September 30, 2019 and September 30, 2018. Principal amount of $340 million and $402 million less unamortized deferred financing costs of $4 million and $3 million at September 30, 2019 and September 30, 2018, respectively.

(f) Principal amount of $220 million and $250 million less unamortized deferred financing costs of $2 million and $3 million at September 30, 2019 and September 30, 2018, respectively.

(g) Face amount of €445 million at September 30, 2019. Above amounts represent the dollar equivalent of such note at September 30, 2019. Principal amount of $487 million, an additional issuance premium of $8 million, less unamortized deferred financing costs of $7 million at September 30, 2019.

(h) Principal amount of $325 million less unamortized deferred financing costs of $4 million and $5 million at September 30, 2019 and September 30, 2018, respectively.

(i) Principal amount of debt of $2.998 billion and $2.851 billion, an additional insurance premium of $8 million and nil, less unamortized discount of $3 million and $4 million and unamortized deferred financing costs of $29 million and $28 million at September 30, 2019 and September 30, 2018, respectively.

December 2017 Senior Term Loan Credit Agreement Amendment

On December 6, 2017, Acquisition Corp. entered into an amendment (the "December 2017 Senior Term Loan Credit Agreement Amendment") to the Senior Term Loan Credit Agreement, dated November 1, 2012, among Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, governing Acquisition Corp.'s senior secured term loan facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto, to, among other things, reduce the pricing terms of its outstanding term loans, change certain incurrence thresholds governing the ability to incur debt and liens, change certain EBITDA add-backs and increase the thresholds above which the excess cash flow sweep is triggered. The Company recorded a loss on extinguishment of debt of approximately $1 million, which represented the discount and unamortized deferred financing costs related to the prior tranche of debt of the lenders that was replaced.

New Revolving Credit Agreement

On January 31, 2018, the Company entered into a new revolving credit agreement (the "Revolving Credit Agreement") for its Revolving Credit Facility, and terminated its existing revolving credit agreement (the "Old Revolving Credit Agreement"). The Revolving Credit Agreement differs from the Old Revolving Credit Agreement in that it, among other things, reduces the interest rate margin applicable to the loans, extends the maturity date thereunder, provides for the option to increase the commitments under the Company's then existing revolving credit agreement, provides for greater flexibility to amend and extend the Company's then existing revolving credit agreement and create additional tranches thereunder, provides for greater flexibility over future amendments, increases the springing financial maintenance covenant to 4.75:1.00 and provides that the covenant shall not be tested unless at the end of a fiscal quarter the outstanding amount of loans and drawings under letters of credit which have not been reimbursed exceeds $54 million and aligns the other negative covenants with those of the Senior Term Loan Credit Agreement. References to "Revolving Credit Facility" below in this Note 8 are to our new revolving credit facility.

March 2018 Senior Term Loan Credit Agreement Amendment

On March 14, 2018, Acquisition Corp. incurred $320 million of supplemental term loans (the "Supplemental Term Loans") pursuant to an increase supplement (the "March 2018 Senior Term Loan Credit Agreement Supplement") to the Senior Term Loan Credit Agreement, dated November 1, 2012, among Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, governing Acquisition Corp.'s senior secured term loan facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (as amended, the "Senior Term Loan Credit Agreement"). The principal amount outstanding under the Senior Term Loan Credit Agreement including the Supplemental Term Loans is $1.326 billion.

Notes Offering

On March 14, 2018, Acquisition Corp. issued $325 million in aggregate principal amount of its 5.500% Senior Notes due 2026. Acquisition Corp. used the net proceeds to pay the consideration in the tender offer for its 6.750% Senior Notes due 2022 (the "6.750% Senior Notes") and to redeem the remaining 6.750% Senior Notes as described below.

Tender Offer and Notes Redemption

On March 14, 2018, Acquisition Corp. accepted for purchase in connection with the tender offer for the 6.750% Senior Notes that had been validly tendered and not validly withdrawn at or prior to 5:00 p.m., New York City time on March 13, 2018 thereby reducing the aggregate principal amount of the 6.750% Senior Notes by $523 million. Acquisition Corp. then issued a notice of redemption on March 14, 2018 with respect to the remaining $112 million of 6.750% Senior Notes outstanding that were not accepted for payment pursuant to the tender offer. Following payment of the 6.750% Senior Notes tendered at or prior to the expiration time, Acquisition Corp. deposited with the Trustee funds of $119 million to satisfy all obligations under the applicable indenture governing the 6.750% Senior Notes, including call premiums and interest through the date of redemption on April 15, 2018, for the remaining 6.750% Senior Notes not accepted for purchase in the tender offer. On April 15, 2018, Acquisition Corp. redeemed the remaining outstanding 6.750% Senior Notes. The Company recorded a loss on extinguishment of debt in connection with the tender offer of approximately $23 million as a result of the partial debt redemption, which represents the premium paid on early redemption and unamortized deferred financing costs in March 2018. The Company incurred an additional loss on extinguishment of approximately

$5 million in April 2018 related to the redemption on the remaining 6.750% Senior Notes, which represents the premium paid on early redemption and unamortized deferred financing costs.

June 2018 Senior Term Loan Credit Agreement Amendment

On June 7, 2018, Acquisition Corp. entered into an amendment (the "June 2018 Senior Term Loan Credit Agreement Amendment") to the Senior Term Loan Credit Agreement, dated November 1, 2012, among Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, governing Acquisition Corp.'s senior secured term loan facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto, to, among other things, reduce the pricing terms of its outstanding term loans, change certain incurrence thresholds governing the ability to incur debt and liens and exclude from the definition of "Senior Secured Indebtedness" certain liens that have junior lien priority on the collateral in relation to the outstanding term loans and the relevant guarantees, as applicable. The Company recorded a loss on extinguishment of debt of approximately $2 million, which represented the discount and unamortized deferred financing costs related to the prior tranche of debt of the lenders that was replaced.

3.625% Senior Secured Notes Offerings

On October 9, 2018, Acquisition Corp. issued and sold €250 million in aggregate principal amount of 3.625% Senior Secured Notes due 2026 (the "3.625% Secured Notes"). Net proceeds of the offering were used to pay the purchase price of the acquisition of EMP, to redeem €34.5 million of the 4.125% Secured Notes (as described below), purchase $30 million of the Company's 4.875% Senior Secured Notes (as described above) on the open market and to redeem $26.55 million of the 5.625% Senior Secured Notes (as described below).

On April 30, 2019, Acquisition Corp. issued and sold €195 million in aggregate principal amount of additional 3.625% Senior Secured Notes due 2026 (the "Additional Notes"). The Additional Notes and the 3.625% Secured Notes were treated as the same series for all purposes under the indenture that governs the 3.625% Secured Notes and the Additional Notes. Net proceeds of the offering were used to redeem all of the 5.625% Secured Notes due 2022.

Partial Redemption of 4.125% Senior Secured Notes

On October 12, 2018, Acquisition Corp. redeemed €34.5 million aggregate principal amount of its 4.125% Senior Secured Notes due 2024 (the "4.125% Secured Notes") using a portion of the proceeds from the offering of the 3.625% Secured Notes described above. The redemption price for the 4.125% Secured Notes was approximately €36.17 million, equivalent to 103% of the principal amount of the 4.125% Secured Notes, plus accrued but unpaid interest thereon to, but excluding, the redemption date, which was October 12, 2018. Following the partial redemption of the 4.125% Secured Notes, €310.5 million of the 4.125% Secured Notes remain outstanding. The Company recorded a loss on extinguishment of debt of approximately $2 million, which represents the premium paid on early redemption and unamortized deferred financing costs related to the partial redemption of this note.

Open Market Purchase

On October 9, 2018, Acquisition Corp. purchased, in the open market, $30 million aggregate principal amount of its outstanding 4.875% Senior Secured Notes due 2024 (the "4.875% Secured Notes"). The acquired notes were subsequently retired. Following retirement of the acquired notes, $220 million of the 4.875% Secured Notes remain outstanding. The Company recorded a loss on extinguishment of debt of less than $1 million, which represents the unamortized deferred financing costs related to the open market purchase.

Redemption of 5.625% Senior Secured Notes

On November 5, 2018, Acquisition Corp. redeemed $26.55 million aggregate principal amount of its 5.625% Senior Secured Notes due 2022 (the "5.625% Secured Notes"). The redemption price for the 5.625% Secured Notes was approximately $27.38 million, equivalent to 102.813% of the principal amount of the 5.625% Secured Notes, plus accrued but unpaid interest thereon to, but excluding, the redemption date, which was November 5, 2018. Following the partial redemption of the 5.625% Secured Notes, $220.95 million of the 5.625% Secured Notes remain outstanding. The Company recorded a loss on extinguishment of debt of approximately $1 million, which represents the premium paid on early redemption and unamortized deferred financing costs related to the partial redemption of this note.

On April 16, 2019, the Company issued a conditional notice of redemption for all of its 5.625% Secured Notes due 2022 currently outstanding. Settlement of the called 5.625% Secured Notes occurred on May 16, 2019. The Company recorded a loss on extinguishment of debt of approximately $4 million, which represents the premium paid on early redemption and unamortized deferred financing costs.

Interest Rates

The loans under the Revolving Credit Facility bear interest at Acquisition Corp.'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") subject to a zero floor, plus 1.75% 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, 0.75% 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 Acquisition Corp.'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") subject to a zero floor, plus 2.125% 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, 1.125% per annum. 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.

The Company has entered into, and in the future may enter into, interest rate swaps to manage interest rate risk. Please refer to Note 14 of our Consolidated Financial Statements for further discussion.

Maturity of Senior Term Loan Facility

The loans outstanding under the Senior Term Loan Facility mature on November 1, 2023.

Maturity of Revolving Credit Facility

The maturity date of the Revolving Credit Facility is January 31, 2023.

Maturities of Senior Notes and Senior Secured Notes

As of September 30, 2019, there are no scheduled maturities of notes until 2023, when $300 million is scheduled to mature. Thereafter, $1.372 billion is scheduled to mature.

Interest Expense, net

Total interest expense, net, was $142 million, $138 million and $149 million for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017, respectively. The weighted-average interest rate of the Company's total debt was 4.3% at September 30, 2019, 4.7% at September 30, 2018 and 4.9% at September 30, 2017.

9. Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("Tax Act"). The Tax Act contains significant revisions to U.S. federal corporate income tax provisions, including, but not limited to, a reduction of the U.S. federal corporate statutory tax rate from 35% to 21%, a one-time transition tax on accumulated foreign earnings, an income inclusion of global intangible low-taxed income ("GILTI"), a deduction against foreign-derived intangible income ("FDII") and a new minimum tax, the base erosion anti-abuse tax ("BEAT"). In accordance with ASC 740, the Company recorded the effects of the Tax Act during the three months ended December 31, 2017.

The reduction in U.S. federal corporate statutory tax rate from 35% to 21% was effective January 1, 2018. The Tax Act requires companies with a fiscal year that begins before and ends after the effective date of the rate change to calculate a blended tax rate based on the pro rata number of days in the fiscal year before and after the effective date. As a result, for the fiscal year ending September 30, 2018, the Company's U.S. federal statutory income tax rate was 24.5%. For the fiscal year ending September 30, 2019, the Company was subject to the U.S. federal corporate statutory tax rate of 21%.

The reduction in the U.S. federal corporate statutory tax rate required the Company to adjust its U.S. deferred tax assets and liabilities using the newly enacted tax rate of 21%. As a result, the Company recorded a U.S. income tax expense of $23 million for the reduction of its net U.S. deferred tax assets for the fiscal year ended September 30, 2018.

The Company has not recorded any income tax liability related to the one-time transition tax on accumulated foreign earnings ("Transition Tax") due to an overall deficit in accumulated foreign earnings. GILTI, FDII and BEAT are effective for the Company's fiscal year ending September 30, 2019. The Company has elected to recognize the GILTI impact in the specific period in which it occurs.

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

	Fiscal Year Ended September 30, 2019	Fiscal Year Ended September 30, 2018	Fiscal Year Ended September 30, 2017
	(in millions)		
Domestic	$ 84	$ 347	$ (37)
Foreign	183	95	35
Total	$ 267	$ 442	$ (2)

Current and deferred income tax expense (benefit) provided are as follows:

	Fiscal Year Ended September 30, 2019	Fiscal Year Ended September 30, 2018	Fiscal Year Ended September 30, 2017
	(in millions)		
Federal:			
Deferred	(49)	91	(169)
Foreign:			
Current (a)	74	58	41
Deferred	(18)	(26)	(12)
U.S. State:			
Current	3	6	2
Deferred	(1)	1	(13)
Total	$ 9	$ 130	$ (151)

(a) Includes withholding taxes of $17 million, $15 million and $13 million for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017, respectively.

The differences between the U.S. federal statutory income tax rate of 21.0%, 24.5% and 35.0% for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017, respectively, and income taxes provided are as follows:

	Fiscal Year Ended September 30, 2019	Fiscal Year Ended September 30, 2018	Fiscal Year Ended September 30, 2017
	(in millions)		
Taxes on income at the U.S. federal statutory rate	$ 56	$ 108	$ (1)
U.S. state and local taxes	2	7	3
Foreign income taxed at different rates, including withholding taxes	16	19	11
Increase in valuation allowance	1	4	18
Release of valuation allowance	(65)	(14)	(134)
Change in tax rates	(4)	23	(1)
Impact of GILTI and FDII	(4)	—	—
Intergroup transfer	—	(30)	—
Foreign currency losses on intra-entity loans	—	—	(59)
Non-deductible long term incentive plan	6	8	10
Other	1	5	2
Income tax expense (benefit)	$ 9	$ 130	$ (151)

During the fiscal year ended September 30, 2019, the Company recognized a U.S. tax benefit of $59 million related to the release of a U.S. deferred tax valuation allowance. During the fiscal year ended September 30, 2018, the Company recognized a U.S. tax expense of $23 million related to the reduction of net U.S. deferred tax assets as a result of the Tax Act. In addition, the Company recognized a net tax benefit of $30 million related to a prior-year intergroup transfer. During the fiscal year ended September 30, 2017,

the Company released $125 million of the U.S. valuation allowance related to U.S. tax attributes and recognized a U.S. tax benefit of $59 million related to foreign currency losses on intra-entity loans. The foreign currency loss was previously reported in accumulated other comprehensive loss as the intra-entity loans were previously considered long-term in nature.

For the fiscal years ended September 30, 2019 and September 30, 2018, the Company incurred losses in 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. For the fiscal year ended September 30, 2019, the Company released $59 million of the U.S. valuation allowance related to foreign tax credit carryforwards. Significant components of the Company's net deferred tax liabilities are summarized below:

	September 30, 2019	September 30, 2018
	(in millions)	
Deferred tax assets:		
Allowances and reserves	$ 27	$ 26
Employee benefits and compensation	79	86
Other accruals	17	56
Tax attribute carryforwards	203	314
Other	3	4
Total deferred tax assets	329	486
Valuation allowance	(91)	(206)
Net deferred tax assets	238	280
Deferred tax liabilities:		
Intangible assets	(372)	(434)
Total deferred tax liabilities	(372)	(434)
Net deferred tax liabilities	$ (134)	$ (154)

During the three months ended September 30, 2019, the Company concluded that the positive evidence relating to the utilization of foreign tax credits outweighs the negative evidence with respect to a portion of the valuation allowance relating to its foreign tax credit carryovers. This positive evidence includes the utilization of the remaining net operating loss carryforward during the fiscal year ended September 30, 2019, the utilization of current year and carryforward foreign tax credits for the first time during the fiscal year ended September 30, 2019, projections of sufficient future taxable income and foreign source income and the reversal of future taxable temporary differences. As a result, the Company concluded that it is more likely than not that a substantial portion of the Company's deferred tax assets relating to foreign tax credit carryforwards will be realized. Consequently, the Company released $59 million of its $133 million valuation allowance at September 30, 2018 relating to such deferred tax assets and recognized a corresponding U.S. tax benefit of $59 million during the quarter ended September 30, 2019.

Proposed regulations issued by the Internal Revenue Service in November 2018 may result in an increase in the amount of foreign tax credit carryforwards that are more likely than not to be realized and thus result in a further release of the Company's valuation allowance for foreign tax credit carryforwards and a corresponding U.S. tax benefit in the period in which such regulations are enacted.

Of the valuation allowance of $91 million at September 30, 2019, $49 million relates to U.S. tax attributes, of which $33 million relates to foreign tax credit carryforwards, $12 million relates to U.S. state net operating loss carryforwards and $4 million relates to outside basis differences in investments.

At September 30, 2019, the Company has no remaining U.S. federal tax net operating loss carryforwards. The Company also has tax net operating loss carryforwards, with no expiration date, in the U.K., France and Spain of $11 million, $88 million and $32 million, respectively, and other tax net operating loss carryforwards in state, local and foreign jurisdictions that expire in various periods. In addition, the Company has foreign tax credit carryforwards for U.S. tax purposes of $120 million. The U.S. foreign tax credits will begin to expire in fiscal year 2020.

Deferred income taxes have not been recorded on indefinitely reinvested earnings of certain foreign subsidiaries of approximately $206 million at September 30, 2019. Distribution of these earnings may result in foreign withholding taxes and U.S. state taxes. However, variables existing if and when remittance occurs 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 position as a component of income tax expense. As of September 30, 2019 and September 30, 2018, the Company had accrued $3 million and $2 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, 2016	$	30
Additions for current year tax positions		2
Additions for prior year tax positions		1
Subtractions for prior year tax positions		(14)
Balance at September 30, 2017	$	19
Additions for current year tax positions		3
Additions for prior year tax positions		3
Subtractions for prior year tax positions		(7)
Balance at September 30, 2018	$	18
Additions for prior year tax positions		1
Subtractions for prior year tax positions		(7)
Balance at September 30, 2019	$	12

Included in the total unrecognized tax benefits at September 30, 2019 and September 30, 2018 are $12 million and $18 million, respectively, that if recognized, would reduce the effective income tax rate. The Company's gross unrecognized tax benefits decreased during the fiscal year ended September 30, 2019 by $7 million primarily due to a tax settlement in Germany and statute lapses. The Company has determined that is reasonably possible that its existing reserve for uncertain tax positions as of September 30, 2019 could decrease by up to approximately $1 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, 2013, in the U.K. for the tax years ended through September 30, 2016, in Canada for tax years ended through September 30, 2013, in Germany for the tax years ended through September 30, 2009 and in Japan for the tax years ended through September 30, 2012. The Company is at various stages in the tax audit process in certain foreign and local jurisdictions.

10. 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 $82 million and $73 million as of September 30, 2019 and September 30, 2018, 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 $56 million and $50 million recorded in its balance sheets as of September 30, 2019 and September 30, 2018, respectively. The Company uses a September 30 measurement date for its plans. For each of the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017, pension expense amounted to $4 million.

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 $6 million for the fiscal year ended September 30, 2019, $5 million for the fiscal year ended September 30, 2018 and $5 million for the fiscal year ended September 30, 2017.

11. Share-Based Compensation Plans

Effective January 1, 2013, eligible individuals were invited to participate in the Senior Management Free Cash Flow Plan (as amended, 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. In 2017, the Company's Compensation Committee invited two additional employees 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, as adjusted in accordance with the Plan. The LLC currently owns approximately 60 issued and outstanding shares. Each deferred equity unit is equivalent to 1/10,000 of a share of Company stock. The Company credits units to active participants each Plan year at the time that annual free cash flow bonuses for such Plan year are determined (although certain participants have already received their complete allocations) 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 is credited a number of deferred equity units based on their respective allocation divided by the grant date intrinsic value and an equal number of the related matching units is vested. The redemption price of the deferred equity units equals 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 equals 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 on the grant date.

The intrinsic value method utilized by the Company is based on the estimated fair value of equity divided by the number of shares outstanding to determine a price per share. The Company's estimated fair value of equity is derived from a discounted cash flow model with adjustments for non-operating assets, less the estimated fair value of debt.

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. The deferred and matching equity units have cash settlement dates that began in December 2018. Upon the scheduled settlement in December 2018, the Company settled 4,395.54 deferred equity units, including special deferred equity units, in cash totaling approximately $1 million, 86,496.04 in Company fractional shares (which were contributed to the LLC in exchange for Class A units of the LLC) with an estimated value of $26 million and 4,553.50 matching equity units in cash totaling approximately $1 million. The deferred units will be settled at the participant's election for cash equal to the fair market value of one fractional company share or a fractional company share. The matching units will be settled for cash equal to the redemption price or fractional company shares of equivalent value. At the end of the applicable redemption period, 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. As of September 30, 2019, total liabilities for the vested portion of the plan is $211 million, of which $108 million is eligible for redemption in fiscal 2020 and, therefore a current liability. 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 Intrinsic 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, 2017	13	36	$ 241.75	$ 111.23	$ 140.04	$ —
Granted	—	—	—	—	—	—
Vested	(7)	(9)	304.22	193.83	133.05	—
Forfeited	—	—	—	—	—	—
Unvested units at September 30, 2018	6	27	$ 304.22	$ 167.15	$ 148.69	$ —
Granted	—	—	—	—	—	—
Vested	(2)	(13)	367.96	243.41	147.26	—
Forfeited	—	—	—	—	—	—
Unvested units at September 30, 2019	4	14	$ 367.96	$ 219.73	$ 149.45	$ —

The weighted-average grant date intrinsic value of deferred equity unit awards for the fiscal year ended September 30, 2019 was $149.45. The fair value of these deferred equity units at September 30, 2019 was $367.96. The weighted-average grant date intrinsic value of deferred equity unit awards for the fiscal year ended September 30, 2018 was $148.69. The fair value of these

deferred equity units at September 30, 2018 was $304.22. The weighted-average grant date intrinsic value of deferred equity unit awards for the fiscal year ended September 30, 2017 was $140.04. The fair value of these deferred equity units at September 30, 2017 was $241.75.

Compensation Expense

The Company recognized non-cash share-based compensation expense of $50 million, free cash flow compensation expense of $15 million and dividend expense related to the equity units of $7 million for the fiscal year ended September 30, 2019. The Company recognized non-cash share-based compensation expense of $62 million, free cash flow compensation expense of $19 million and dividend expense related to the equity units of $27 million for the fiscal year ended September 30, 2018. The Company recognized non-cash share-based compensation expense of $70 million, free cash flow compensation expense of $30 million and dividend expense related to the equity units of $2 million for the fiscal year ended September 30, 2017.

In addition, at September 30, 2019, September 30, 2018 and September 30, 2017, the Company had approximately $16 million, $18 million and $34 million, respectively, of unrecognized compensation costs related to its unvested share awards. As of September 30, 2019, the remaining weighted-average period over which total compensation related to unvested awards is expected to be recognized is 1 year.

12. Related Party Transactions

Management Agreement

Upon completion of the Merger, the Company and Holdings entered into the Management Agreement, dated as of the Merger Closing Date, pursuant to which Access provides the Company and its subsidiaries with financial, investment banking, management, advisory and other services. Pursuant to the Management Agreement, the Company pays to Access an annual fee and reimburses 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 $11 million, $16 million and $9 million for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017, respectively. Such amounts have been included as a component of selling, general and administrative expense in the accompanying consolidated statements of operations.

Lease Arrangements with Related Parties

On March 29, 2019, an affiliate of Access acquired the Ford Factory Building, located on 777 S. Santa Fe Avenue in Los Angeles, California from an unaffiliated third party. The building is the Company’s new Los Angeles, California headquarters and as such, the Company is the sole tenant of the building acquired by Access. The existing lease agreement was assumed by Access upon purchase of the building and was not modified as a result of the purchase. Rental payments by the Company under the existing lease total approximately $12 million per year, subject to annual fixed increases. The remaining lease term is approximately 11 years, after which the Company may exercise a single option to extend the term of the lease for 10 years thereafter.

On July 15, 2016, a subsidiary of the Company, Warner Music Inc., entered into a license agreement with Cooper Investment Partners LLC, for the use of office space in the Company’s corporate headquarters at 1633 Broadway, New York, New York. The license fee of $16,967.21 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, 2019, an immaterial amount was recorded as rental income. The space is occupied by Cooper Investment Partners LLC, which is a private equity fund that pursues a wide range of investment opportunities. Mr. Cooper, CEO and director of the Company, is the Managing Partner of Cooper Investment Partners LLC.

On August 13, 2015, a subsidiary of the Company, Warner Music Inc., entered into a license agreement with Access for the use of office space in the Company’s 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, 2019, 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.

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. Subsequent to the change in ownership, the parties entered into the lease and related agreements pursuant to which, on January 1, 2015, the rent was increased to £3,460,250 per year and the term was extended for an additional five years from December 24, 2020 to December 24, 2025, with a market rate rent review beginning December 25, 2020.

License Agreements with Deezer

Access owns a controlling equity interest in Deezer S.A., which was formerly known as Odyssey Music Group ("Odyssey"), a French company that controls and operates a 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. Subsidiaries of the Company have been a party to license arrangements with Deezer since 2008, which provide for the use of the Company's sound recordings on Deezer's ad-supported and subscription streaming services worldwide (excluding Japan) in exchange for fees paid by Deezer. The Company has also authorized Deezer to include the Company's sound recordings 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 the Company. Deezer paid to the Company an aggregate amount of approximately $49 million in connection with the foregoing arrangements during the fiscal year ended September 30, 2019. In addition, in connection with these arrangements, (i) the Company was issued, and currently holds, warrants to purchase shares of Deezer S.A. and (ii) the Company purchased a small number of shares of Deezer S.A., which collectively represent a small minority interest in Deezer S.A. The Company also has various publishing agreements with Deezer. Warner Chappell has licenses with Deezer for use of repertoire on the service in Europe, which the Company refers to as a PEDL license (referencing the Company's Pan European Digital Licensing initiative), and for territories in Latin America. For the PEDL and Latin American licenses for the fiscal year ended September 30, 2019, Deezer paid the Company an additional approximately $1 million. Deezer also licenses other publishing rights controlled by Warner Chappell through statutory licenses or through various collecting societies.

Investment in Tencent Music Entertainment Group

On October 1, 2018, WMG China LLC ("WMG China"), an affiliate of the Company, entered into a share subscription agreement with Tencent Music Entertainment Group pursuant to which WMG China agreed to purchase 37,162,288 ordinary shares of Tencent Music Entertainment Group for $100 million. WMG China is 80% owned by AI New Holdings 5 LLC, an affiliate of Access, and 20% owned by the Company. On October 3, 2018, WMG China acquired the shares pursuant to the share subscription agreement.

Music Publishing Agreement

Val Blavatnik (the son of our director and controlling shareholder, Len Blavatnik) entered into a music publishing contract with Warner-Tamerlane Publishing Corp., dated September 7, 2018, pursuant to which, in fiscal 2019, he was paid $162,500 in advances recoupable from royalties otherwise payable to him from the licensing of musical compositions written or co-written by him.

Loan Agreement with Max Lousada

On April 16, 2018, the Company loaned $227,000 to Mr. Lousada in exchange for a promissory note. Mr. Lousada was obligated to repay this loan upon the earliest of specified events, including April 30, 2019, termination of his employment, the event of a default (as specified therein) or if the Company or one of its affiliates becomes an issuer of publicly traded stock. Mr. Lousada repaid this loan prior to April 30, 2019.

13. Commitments and Contingencies

Leases

The Company occupies various facilities and uses certain equipment under operating leases. Net rent expense was approximately $84 million, $80 million and $62 million for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017, respectively.

At September 30, 2019, future minimum payments under non-cancelable operating leases are as follows:

Years	Operating Leases
	(in millions)
2020	$ 52
2021	49
2022	48
2023	47
2024	45
Thereafter	207
Total	$ 448

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

Talent Advances

The Company routinely enters into long-term commitments with recording artists, songwriters and publishers for the future delivery of music. Such commitments generally become due only upon delivery and Company acceptance of albums from the recording artists or future musical compositions from 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 $428 million and $340 million as of September 30, 2019 and September 30, 2018, respectively.

Other

Other off-balance sheet, firm commitments, which primarily include minimum funding commitments to investees, amounted to approximately $10 million and $4 million at September 30, 2019 and September 30, 2018, respectively.

Litigation

SiriusXM

On September 11, 2013, the Company 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 SiriusXM Radio Inc., alleging copyright infringement for SiriusXM's use of pre-1972 sound recordings under California law. A nation-wide settlement was reached on June 17, 2015 pursuant to which SiriusXM paid the plaintiffs, in the aggregate, $210 million on July 29, 2015 and the plaintiffs dismissed their lawsuit with prejudice. The settlement resolved all past claims as to SiriusXM's use of pre-1972 recordings owned or controlled by the plaintiffs and enabled SiriusXM, without any additional payment, to reproduce, perform and broadcast such recordings in the United States through December 31, 2017. The allocation of the settlement proceeds among the plaintiffs was determined and the settlement proceeds were distributed accordingly. This resulted in a cash distribution to the Company of $33 million of which $28 million was recognized in revenue during the 2016 fiscal year and $4 million was recognized in revenue during the 2017 fiscal year. The balance of $1 million was recognized in the first quarter of the 2018 fiscal year. The Company is sharing its allocation of the settlement proceeds with its artists on the same basis as statutory revenue from SiriusXM is shared, i.e., the artist share of our allocation will be paid to artists by SoundExchange.

As part of the settlement, plaintiffs agreed to negotiate in good faith to grant SiriusXM a license to publicly perform the plaintiffs' pre-1972 sound recordings for the five-year period running from January 1, 2018 to December 31, 2022. Pursuant to the settlement, if the parties were unable to reach an agreement on license terms, the royalty rate for each license would be determined by binding arbitration on a willing buyer/willing seller standard. On December 21, 2017, SiriusXM commenced a single arbitration against all of the plaintiffs in California through JAMS to determine the rate for the five-year period. On May 1, 2018, the Company filed a lawsuit against SiriusXM in New York state court to stay the California arbitration and to compel a separate arbitration in New York solely between SiriusXM and the Company. On August 23, 2018, the Company filed a Stipulation of Discontinuance without Prejudice as to the New York state court action after SiriusXM agreed to participate in a separate arbitration with the Company in New York if the parties were unable to reach an agreement on pre-1972 license terms. On March 28, 2019, the Company and SiriusXM entered into an agreement granting SiriusXM a license to publicly perform the Company's pre-1972 sound recordings for the five-year period running from January 1, 2018 to December 31, 2022.

Other Matters

In addition to the matter 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 the currently pending proceedings, the amount of accrual is not 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 and interest rate swaps, for the purposes of managing foreign currency exchange rate risk and interest rate risk on expected future cash flows. However, the Company may choose not to hedge certain exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange or interest 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 U.S. companies for the sale or licensing of U.S.-based music and merchandise 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, Australian dollar, Brazilian real, Korean won and Norwegian krone. 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 consolidated statement of operations.

The Company may at times choose to hedge foreign currency risk associated with financing transactions such as third-party 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 consolidated statement of operations where there is an equal and offsetting entry related to the underlying exposure.

The Company has entered into, and in the future may enter into, interest rate swaps to manage interest rate risk. These instruments may offset a portion of changes in income or expense, or changes in fair value of the Company's long-term debt. The interest rate swap instruments 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).

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's hedged interest rate transactions as of September 30, 2019 are expected to be recognized within five years. The fair value of interest rate swaps is based on dealer quotes of market rates (i.e., Level 2 inputs) which is discussed further in Note 17. Interest income or expense related to interest rate swaps is recognized in interest income, net in the same period as the related expense is recognized. The ineffective portions of interest rate swaps are recognized in other income/(expense), net in the period measured.

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, 2019, 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, 2018, 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, 2019, the Company had outstanding $820 million in pay-fixed receive-variable interest rate swaps with $8 million of unrealized deferred losses in comprehensive income related to the interest rate swaps. As of September 30, 2018, the Company had outstanding $320 million in pay-fixed receive-variable interest rate swaps with $3 million of unrealized deferred gains in comprehensive income related to the interest rate swaps.

The pre-tax losses of the Company's derivative interest rate swaps designated as cash flow hedges recorded in other comprehensive income and the Consolidated Statement of Comprehensive Income during the twelve months ended September 30, 2019 was $11 million, net. The pre-tax gains of the Company's derivative interest rate swaps designated as cash flow hedges recorded in other comprehensive income and the Consolidated Statement of Comprehensive Income during the twelve months ended September 30, 2018 was $4 million.

The following is a summary of amounts recorded in the Consolidated Balance Sheets pertaining to the Company's designated cash flows hedges at September 30, 2019 and September 30, 2018:

	September 30, 2019 (a)	September 30, 2018 (b)
	(in millions)	
Other noncurrent assets	$ 2	$ 4
Other noncurrent liabilities	(13)	—

(a) $2 million and $13 million of interest rate swaps in asset and liability positions, respectively.
(b) $4 million of interest rate swap in an asset position.

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)	
2019				
Revenues	$ 3,840	$ 643	$ (8)	$ 4,475
Operating income (loss)	439	92	(175)	356
Amortization of intangible assets	139	69	—	208
Depreciation of property, plant and equipment	45	5	11	61
OIBDA	623	166	(164)	625
Total assets	2,217	2,581	1,219	6,017
Capital expenditures	29	3	72	104
2018				
Revenues	$ 3,360	$ 653	$ (8)	$ 4,005
Operating income (loss)	307	84	(174)	217
Amortization of intangible assets	138	68	—	206
Depreciation of property, plant and equipment	35	7	13	55
OIBDA	480	159	(161)	478
Total assets	1,999	2,423	922	5,344
Capital expenditures	20	3	51	74
2017				
Revenues	$ 3,020	$ 572	$ (16)	$ 3,576
Operating income (loss)	283	81	(142)	222
Amortization of intangible assets	136	65	—	201
Depreciation of property, plant and equipment	32	6	12	50
OIBDA	451	152	(130)	473
Capital expenditures	21	5	18	44

Revenues relating to operations in different geographical areas are set forth below for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017. Total assets relating to operations in different geographical areas are set forth below as of September 30, 2019 and September 30, 2018.

	2019		2018		2017
	Revenue	Long-lived Assets	Revenue	Long-lived Assets	Revenue
			(in millions)		
United States	$ 1,956	$ 201	$ 1,754	$ 156	$ 1,587
United Kingdom	596	20	593	23	522
All other territories	1,923	79	1,658	50	1,467
Total	$ 4,475	$ 300	$ 4,005	$ 229	$ 3,576

Customer Concentration

In the fiscal year ended September 30, 2019, the Company had two customers, Spotify and Apple, that individually represented 10% or more of total revenues, whereby Spotify represented 14%, and Apple represented 13% of total revenues. In the fiscal year ended September 30, 2018, the Company had two customers, Apple and Spotify, that individually represented 10% or more of total revenues, whereby Apple represented 15%, and Spotify represented 14% of total revenues. In the fiscal year ended September 30, 2017, the Company had one customer, Apple, that individually represented 14% of total revenues. These customers' revenues are included in both the Company's Recorded Music and Music Publishing segments and the Company expects that the Company's license agreements with these customers will be renewed in the normal course of business.

16. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $138 million, $148 million and $138 million during the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017, respectively. The Company paid approximately $63 million, $49 million and $40 million of foreign income and withholding taxes, net of refunds, for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017, respectively.

Dividends

The Company's ability to pay dividends is restricted by covenants in the indentures governing its notes and in the credit agreements for the Senior Term Loan Facility and the Revolving Credit Facility.

On September 23, 2019, the Company's board of directors declared a cash dividend of $206.25 million which was paid to stockholders on October 4, 2019 and recorded as an accrual as of September 30, 2019. For fiscal year 2019, the Company paid an aggregate of $93.75 million in cash dividends to stockholders. For fiscal year 2018, the Company paid an aggregate of $925 million in cash dividends to stockholders, which reflected proceeds from the sale of Spotify shares acquired in the ordinary course of business. For fiscal year 2017, the Company paid an aggregate of $84 million in cash dividends to stockholders.

In the first quarter of fiscal year 2019, the Company instituted a regular quarterly dividend policy whereby it intends to pay a modest regular quarterly dividend in each fiscal quarter and a variable dividend for the fourth fiscal quarter in an amount commensurate with cash expected to be generated from operations in such fiscal year, in each case, after taking into account other potential uses for cash, including acquisitions, investment in our business and repayment of indebtedness. The declaration of each dividend will continue to be at the discretion of the Board.

Spotify Share Sale

During the fiscal year ended September 30, 2018, the Company sold all of its shares of common stock in Spotify Technology S.A. ("Spotify") for cash proceeds of $504 million. In February 2016, the Company publicly announced that it would pay royalties in connection with these proceeds. The sale of shares resulted in an estimated pre-tax gain, net of the estimated royalty expense and other related costs, of $382 million, which was recorded as other income (expense) for the fiscal year ended September 30, 2018. As of September 30, 2018, the estimated royalty expense and other related costs had been accrued, and were subsequently paid. The processing of the royalty expense resulted in advance recoveries of previously expensed royalty advances. The Company calculated the advance recoveries to be $12 million, and recorded these advance recoveries as a credit within operating expense for the fiscal year ended September 30, 2018. The Company also recorded estimated tax expense of $77 million associated with the net income on the sale of shares in fiscal year ended September 30, 2018.

Additionally, the cash proceeds received in connection with the sale of shares have been reflected as an investing activity on the statement of cash flows within proceeds from the sale of investments for the fiscal year ended September 30, 2018.

17. Fair Value Measurements

ASC 820, *Fair Value Measurement* ("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, 2019 and September 30, 2018.

	Fair Value Measurements as of September 30, 2019			
	(Level 1)	(Level 2)	(Level 3)	Total
		(in millions)		
Other Current Liabilities:				
Contractual Obligations (a)	$ —	$ —	$ 9	$ 9
Other Non-Current Assets:				
Equity Method Investment (c)	—	40	—	40
Interest Rate Swap (b)	—	2	—	2
Other Non-Current Liabilities:				
Interest Rate Swap (b)	—	(13)	—	(13)
Total	$ —	$ 29	$ 9	$ 38

	Fair Value Measurements as of September 30, 2018			
	(Level 1)	(Level 2)	(Level 3)	Total
		(in millions)		
Other Current Liabilities:				
Contractual Obligations (a)	$ —	$ —	$ (2)	$ (2)
Other Noncurrent Assets				
Interest Rate Swaps	—	4	—	4
Other Non-Current Liabilities:				
Contractual Obligations (a)	—	—	(6)	(6)
Total	$ —	$ 4	$ (8)	$ (4)

(a) This represents purchase obligations and contingent consideration related to the Company's various acquisitions. This is based on a probability weighted performance 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 consolidated statements 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.

(b) The fair value of the interest rate swaps is based on dealer quotes of market forward rates and reflects the amount that the Company would receive or pay as of September 30, 2019 for contracts involving the same attributes and maturity dates.

(c) The fair value of equity method investment represents an equity method investment acquired during the fiscal year ended September 30, 2019 whereby the Company has elected the fair value option under ASC 825, *Financial Instruments* ("ASC 825"). The valuation is based upon quoted prices in active markets and model-based valuation techniques to determine fair value.

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, 2018	$ (8)
Additions	(2)
Payments	1
Balance at September 30, 2019	$ (9)

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.

Equity Investments Without Readily Determinable Fair Value

The Company evaluates its equity investments without readily determinable fair values for impairment if factors indicate that a significant decrease in value has occurred. Beginning in October 2018, the Company prospectively adopted a new accounting

standard on the accounting for equity investments that do not have readily determinable fair values. Refer to Note 2, “Summary of Significant Accounting Policies,” for further details. Under the new standard, the Company has elected to use the measurement alternative to fair value that will allow these investments to be recorded at cost, less impairment, and adjusted for subsequent observable price changes. The Company did not record any impairment charges on these investments during the fiscal year ended September 30, 2019. In addition, there were no observable price changes events that were completed during the fiscal year ended September 30, 2019.

Fair Value of Debt

Based on the level of interest rates prevailing at September 30, 2019, the fair value of the Company’s debt was $3.080 billion. Based on the level of interest rates prevailing at September 30, 2018, the fair value of the Company’s debt was $2.862 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.

COEX-
9.19

WARNER MUSIC GROUP CORP.

2019 QUARTERLY FINANCIAL INFORMATION
(unaudited)

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

	Three months ended			
	September 30, 2019	**June 30, 2019**	**March 31, 2019**	**December 31, 2018**
	(in millions)			
Revenues	$ 1,124	$ 1,058	$ 1,090	$ 1,203
Costs and expenses:				
Cost of revenue	(639)	(577)	(559)	(626)
Selling, general and administrative expenses (a)	(408)	(372)	(354)	(376)
Amortization expense	(48)	(51)	(55)	(54)
Total costs and expenses	(1,095)	(1,000)	(968)	(1,056)
Operating income	29	58	122	147
Loss on extinguishment of debt	—	(4)	—	(3)
Interest expense, net	(34)	(36)	(36)	(36)
Other income (expense)	19	(16)	29	28
Income before income taxes	14	2	115	136
Income tax benefit (expense)	77	12	(48)	(50)
Net income	91	14	67	86
Less: Income attributable to noncontrolling interest	(1)	(1)	—	—
Net income attributable to Warner Music Group Corp.	$ 90	$ 13	$ 67	$ 86
(a) Includes depreciation expense of:	$ (18)	$ (15)	$ (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.

2018 QUARTERLY FINANCIAL INFORMATION
(unaudited)

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

	Three months ended			
	September 30, 2018	June 30, 2018	March 31, 2018	December 31, 2017
	(in millions)			
Revenues	$ 1,039	$ 958	$ 963	$ 1,045
Costs and expenses:				
Cost of revenue	(583)	(531)	(488)	(569)
Selling, general and administrative expenses (a)	(398)	(343)	(337)	(333)
Amortization expense	(42)	(56)	(55)	(53)
Total costs and expenses	(1,023)	(930)	(880)	(955)
Operating income	16	28	83	90
Loss on extinguishment of debt	—	(7)	(23)	(1)
Interest expense, net	(33)	(33)	(36)	(36)
Other income (expense)	2	394	(6)	4
(Loss) income before income taxes	(15)	382	18	57
Income tax benefit (expense)	2	(61)	(19)	(52)
Net (loss) income	(13)	321	(1)	5
Less: Income attributable to noncontrolling interest	(1)	(1)	(2)	(1)
Net (loss) income attributable to Warner Music Group Corp.	$ (14)	$ 320	$ (3)	$ 4
(a) Includes depreciation expense of:	$ (14)	$ (15)	$ (14)	$ (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. As of September 30, 2019 Acquisition Corp. had issued and outstanding the 5.000% Senior Secured Notes due 2023, the 4.125% Senior Secured Notes due 2024, the 4.875% Senior Secured Notes due 2024, the 3.625% Senior Secured Notes due 2026 and the 5.500% Senior Notes due 2026 (together, the "Acquisition Corp. Notes").

The Acquisition Corp. Notes are 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 is full, unconditional and 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 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, including the Revolving Credit Facility and the Senior Term Loan Facility.

COEX-
9.19

Consolidating Balance Sheet
September 30, 2019

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Assets									
Current assets:									
Cash and equivalents	$ —	$ 386	$ 233	$ —	$ 619	$ —	$ —	$ —	$ 619
Accounts receivable, net	—	334	441	—	775	—	—	—	775
Inventories	—	11	63	—	74	—	—	—	74
Royalty advances expected to be recouped within one year	—	112	58	—	170	—	—	—	170
Prepaid and other current assets	—	12	41	—	53	—	—	—	53
Total current assets	—	855	836	—	1,691	—	—	—	1,691
Due from (to) parent companies	458	(531)	73	—	—	—	—	—	—
Investments in and advances to consolidated subsidiaries	2,272	2,567	—	(4,839)	—	878	878	(1,756)	—
Royalty advances expected to be recouped after one year	—	137	71	—	208	—	—	—	208
Property, plant and equipment, net	—	200	100	—	300	—	—	—	300
Goodwill	—	1,370	391	—	1,761	—	—	—	1,761
Intangible assets subject to amortization, net	—	884	839	—	1,723	—	—	—	1,723
Intangible assets not subject to amortization	—	71	80	—	151	—	—	—	151
Deferred tax assets, net	—	30	8	—	38	—	—	—	38
Other assets	7	115	23	—	145	—	—	—	145
Total assets	$ 2,737	$ 5,698	$ 2,421	$ (4,839)	$ 6,017	$ 878	$ 878	$ (1,756)	$ 6,017
Liabilities and Equity									
Current liabilities:									
Accounts payable	$ —	$ 160	$ 100	$ —	$ 260	$ —	$ —	$ —	$ 260
Accrued royalties	4	813	750	—	1,567	—	—	—	1,567
Accrued liabilities	—	266	226	—	492	—	—	—	492
Accrued interest	34	—	—	—	34	—	—	—	34
Deferred revenue	—	42	138	—	180	—	—	—	180
Other current liabilities	—	221	65	—	286	—	—	—	286
Total current liabilities	38	1,502	1,279	—	2,819	—	—	—	2,819
Long-term debt	2,974	—	—	—	2,974	—	—	—	2,974
Deferred tax liabilities, net	—	—	172	—	172	—	—	—	172
Other noncurrent liabilities	14	200	107	—	321	—	—	—	321
Total liabilities	3,026	1,702	1,558	—	6,286	—	—	—	6,286
Total Warner Music Group Corp. (deficit) equity	(289)	3,992	847	(4,839)	(289)	878	878	(1,756)	(289)
Noncontrolling interest	—	4	16	—	20	—	—	—	20
Total equity	(289)	3,996	863	(4,839)	(269)	878	878	(1,756)	(269)
Total liabilities and equity	$ 2,737	$ 5,698	$ 2,421	$ (4,839)	$ 6,017	$ 878	$ 878	$ (1,756)	$ 6,017

COEX-
9.19

Consolidating Balance Sheet
September 30, 2018

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Assets									
Current assets:									
Cash and equivalents	$ —	$ 169	$ 345	$ —	$ 514	$ —	$ —	$ —	$ 514
Accounts receivable, net	—	262	185	—	447	—	—	—	447
Inventories	—	18	24	—	42	—	—	—	42
Royalty advances expected to be recouped within one year	—	79	44	—	123	—	—	—	123
Prepaid and other current assets	—	15	35	—	50	—	—	—	50
Total current assets	—	543	633	—	1,176	—	—	—	1,176
Due from (to) parent companies	488	(214)	(274)	—	—	—	—	—	—
Investments in and advances to consolidated subsidiaries	2,018	2,192	—	(4,210)	—	675	675	(1,350)	—
Royalty advances expected to be recouped after one year	—	93	60	—	153	—	—	—	153
Property, plant and equipment, net	—	155	74	—	229	—	—	—	229
Goodwill	—	1,370	322	—	1,692	—	—	—	1,692
Intangible assets subject to amortization, net	—	956	895	—	1,851	—	—	—	1,851
Intangible assets not subject to amortization	—	71	83	—	154	—	—	—	154
Deferred tax assets, net	—	—	11	—	11	—	—	—	11
Other assets	12	55	11	—	78	—	—	—	78
Total assets	$ 2,518	$ 5,221	$ 1,815	$ (4,210)	$ 5,344	$ 675	$ 675	$ (1,350)	$ 5,344
Liabilities and Equity									
Current liabilities:									
Accounts payable	$ —	$ 200	$ 81	$ —	$ 281	$ —	$ —	$ —	$ 281
Accrued royalties	—	869	527	—	1,396	—	—	—	1,396
Accrued liabilities	—	195	228	—	423	—	—	—	423
Accrued interest	31	—	—	—	31	—	—	—	31
Deferred revenue	—	94	114	—	208	—	—	—	208
Other current liabilities	—	2	32	—	34	—	—	—	34
Total current liabilities	31	1,360	982	—	2,373	—	—	—	2,373
Long-term debt	2,819	—	—	—	2,819	—	—	—	2,819
Deferred tax liabilities, net	—	3	162	—	165	—	—	—	165
Other noncurrent liabilities	2	197	108	—	307	—	—	—	307
Total liabilities	2,852	1,560	1,252	—	5,664	—	—	—	5,664
Total Warner Music Group Corp. (deficit) equity	(334)	3,656	554	(4,210)	(334)	675	675	(1,350)	(334)
Noncontrolling interest	—	5	9	—	14	—	—	—	14
Total equity	(334)	3,661	563	(4,210)	(320)	675	675	(1,350)	(320)
Total liabilities and equity	$ 2,518	$ 5,221	$ 1,815	$ (4,210)	$ 5,344	$ 675	$ 675	$ (1,350)	$ 5,344

COEX-
9.19

Consolidating Statement of Operations
For The Fiscal Year Ended September 30, 2019

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Revenues	$ —	$ 2,041	$ 2,804	$ (370)	$ 4,475	$ —	$ —	$ —	$ 4,475
Costs and expenses:									
Cost of revenue	—	(1,109)	(1,603)	311	(2,401)	—	—	—	(2,401)
Selling, general and administrative expenses	—	(765)	(804)	59	(1,510)	—	—	—	(1,510)
Amortization of intangible assets	—	(97)	(111)	—	(208)	—	—	—	(208)
Total costs and expenses	—	(1,971)	(2,518)	370	(4,119)	—	—	—	(4,119)
Operating income	—	70	286	—	356	—	—	—	356
Loss on extinguishment of debt	(7)	—	—	—	(7)	—	—	—	(7)
Interest expense, net	(71)	(50)	(21)	—	(142)	—	—	—	(142)
Equity gains from consolidated subsidiaries	311	185	—	(496)	—	256	256	(512)	—
Other income (expense), net	32	56	(28)	—	60	—	—	—	60
Income before income taxes	265	261	237	(496)	267	256	256	(512)	267
Income tax (expense) benefit	(9)	12	(51)	39	(9)	—	—	—	(9)
Net income	256	273	186	(457)	258	256	256	(512)	258
Less: Income attributable to noncontrolling interest	—	—	(2)	—	(2)	—	—	—	(2)
Net income attributable to Warner Music Group Corp.	$ 256	$ 273	$ 184	$ (457)	$ 256	$ 256	$ 256	$ (512)	$ 256

COEX-
9.19

Consolidating Statement of Operations
For The Fiscal Year Ended September 30, 2018

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Revenues	$ —	$ 2,284	$ 2,245	$ (524)	$ 4,005	$ —	$ —	$ —	$ 4,005
Costs and expenses:									
Cost of revenue	—	(1,090)	(1,442)	361	(2,171)	—	—	—	(2,171)
Selling, general and administrative expenses	—	(1,040)	(534)	163	(1,411)	—	—	—	(1,411)
Amortization of intangible assets	—	(96)	(110)	—	(206)	—	—	—	(206)
Total costs and expenses	—	(2,226)	(2,086)	524	(3,788)	—	—	—	(3,788)
Operating income	—	58	159	—	217	—	—	—	217
Loss on extinguishment of debt	(31)	—	—	—	(31)	—	—	—	(31)
Interest (expense) income, net	(116)	4	(26)	—	(138)	—	—	—	(138)
Equity gains from consolidated subsidiaries	207	122	—	(329)	—	307	307	(614)	—
Other income, net	377	7	10	—	394	—	—	—	394
Income before income taxes	437	191	143	(329)	442	307	307	(614)	442
Income tax expense	(130)	(130)	(39)	169	(130)	—	—	—	(130)
Net income	307	61	104	(160)	312	307	307	(614)	312
Less: Income attributable to noncontrolling interest	—	(1)	(4)	—	(5)	—	—	—	(5)
Net income attributable to Warner Music Group Corp.	$ 307	$ 60	$ 100	$ (160)	$ 307	$ 307	$ 307	$ (614)	$ 307

COEX-
9.19

Consolidating Statement of Operations
For The Fiscal Year Ended September 30, 2017

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Revenues	$ —	$ 1,978	$ 2,008	$ (410)	$ 3,576	$ —	$ —	$ —	$ 3,576
Costs and expenses:									
Cost of revenue	—	(922)	(1,275)	266	(1,931)	—	—	—	(1,931)
Selling, general and administrative expenses	(1)	(900)	(464)	143	(1,222)	—	—	—	(1,222)
Amortization of intangible assets	—	(100)	(101)	—	(201)	—	—	—	(201)
Total costs and expenses	(1)	(1,922)	(1,840)	409	(3,354)	—	—	—	(3,354)
Operating income (loss)	(1)	56	168	(1)	222	—	—	—	222
Loss on extinguishment of debt	(35)	—	—	—	(35)	—	—	—	(35)
Interest (expense) income, net	(95)	2	(56)	—	(149)	—	—	—	(149)
Equity gains from consolidated subsidiaries	124	87	—	(210)	1	143	143	(286)	1
Other expense, net	(1)	(17)	(23)	—	(41)	—	—	—	(41)
(Loss) income before income taxes	(8)	128	89	(211)	(2)	143	143	(286)	(2)
Income tax benefit (expense)	151	154	(30)	(124)	151	—	—	—	151
Net income	143	282	59	(335)	149	143	143	(286)	149
Less: Income attributable to noncontrolling interest	—	(1)	(5)	—	(6)	—	—	—	(6)
Net income attributable to Warner Music Group Corp.	$ 143	$ 281	$ 54	$ (335)	$ 143	$ 143	$ 143	$ (286)	$ 143

COEX-
9.19

Consolidating Statement of Comprehensive Income
For The Fiscal Year Ended September 30, 2019

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Net income	$ 256	$ 273	$ 186	$ (457)	$ 258	$ 256	$ 256	$ (512)	$ 258
Other comprehensive (loss) income, net of tax:									
Foreign currency adjustment	(34)	—	34	(34)	(34)	(36)	(36)	72	(34)
Deferred loss on derivative financial instruments	(11)	—	(11)	11	(11)	(11)	(11)	22	(11)
Minimum pension liability	(5)	—	—	—	(5)	(5)	(5)	10	(5)
Other comprehensive (loss) income, net of tax	(50)	—	23	(23)	(50)	(52)	(52)	104	(50)
Total comprehensive income	206	273	209	(480)	208	204	204	(408)	208
Less: Income attributable to noncontrolling interest	—	—	(2)	—	(2)	—	—	—	(2)
Comprehensive income attributable to Warner Music Group Corp.	$ 206	$ 273	$ 207	$ (480)	$ 206	$ 204	$ 204	$ (408)	$ 206

COEX-
9.19

Consolidating Statement of Comprehensive Income
For The Fiscal Year Ended September 30, 2018

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Net income	$ 307	$ 61	$ 104	$ (160)	$ 312	$ 307	$ 307	$ (614)	$ 312
Other comprehensive (loss) income, net of tax:									
Foreign currency adjustment	(13)	—	13	(13)	(13)	(13)	(13)	26	(13)
Deferred gain on derivative financial instruments	3	—	3	(3)	3	3	3	(6)	3
Minimum pension liability	1	—	1	(1)	1	1	1	(2)	1
Other comprehensive (loss) income, net of tax	(9)	—	17	(17)	(9)	(9)	(9)	18	(9)
Total comprehensive income	298	61	121	(177)	303	298	298	(596)	303
Less: Income attributable to noncontrolling interest	—	(1)	(4)	—	(5)	—	—	—	(5)
Comprehensive income attributable to Warner Music Group Corp.	$ 298	$ 60	$ 117	$ (177)	$ 298	$ 298	$ 298	$ (596)	$ 298

COEX-
9.19

Consolidating Statement of Comprehensive Income
For The Fiscal Year Ended September 30, 2017

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Net income	$ 143	$ 282	$ 59	$ (335)	$ 149	$ 143	$ 143	$ (286)	$ 149
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	30	—	(30)	30	30	32	32	(64)	30
Deferred loss on derivative financial instruments	—	(1)	—	1	—	—	—	—	—
Minimum pension liability	7	—	7	(7)	7	7	7	(14)	7
Other comprehensive income (loss), net of tax	37	(1)	(23)	24	37	39	39	(78)	37
Total comprehensive income	180	281	36	(311)	186	182	182	(364)	186
Less: Income attributable to noncontrolling interest	—	(1)	(5)	—	(6)	—	—	—	(6)
Comprehensive income attributable to Warner Music Group Corp.	$ 180	$ 280	$ 31	$ (311)	$ 180	$ 182	$ 182	$ (364)	$ 180

COEX-
9.19

Consolidating Statement of Cash Flows
For The Fiscal Year Ended September 30, 2019

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Cash flows from operating activities									
Net income	$ 256	$ 273	$ 186	$ (457)	$ 258	$ 256	$ 256	$ (512)	$ 258
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation and amortization	—	138	131	—	269	—	—	—	269
Unrealized (gains) losses and remeasurement of foreign-denominated loans	(43)	—	15	—	(28)	—	—	—	(28)
Deferred income taxes	—	—	(68)	—	(68)	—	—	—	(68)
Loss on extinguishment of debt	7	—	—	—	7	—	—	—	7
Net gain on divestitures and investments	—	(18)	(2)	—	(20)	—	—	—	(20)
Non-cash interest expense	6	—	—	—	6	—	—	—	6
Equity-based compensation expense	—	50	—	—	50	—	—	—	50
Equity gains, including distributions	(311)	(185)	—	496	—	(256)	(256)	512	—
Changes in operating assets and liabilities:									
Accounts receivable, net	—	10	(100)	—	(90)	—	—	—	(90)
Inventories	—	7	(4)	—	3	—	—	—	3
Royalty advances	—	(77)	(33)	—	(110)	—	—	—	(110)
Accounts payable and accrued liabilities	—	315	(273)	(39)	3	—	—	—	3
Royalty payables	—	(68)	198	—	130	—	—	—	130
Accrued interest	3	—	—	—	3	—	—	—	3
Deferred revenue	—	(53)	49	—	(4)	—	—	—	(4)
Other balance sheet changes	8	(41)	24	—	(9)	—	—	—	(9)
Net cash (used in) provided by operating activities	(74)	351	123	—	400	—	—	—	400
Cash flows from investing activities									
Acquisition of music publishing rights and music catalogs, net	—	(24)	(17)	—	(41)	—	—	—	(41)
Capital expenditures	—	(85)	(19)	—	(104)	—	—	—	(104)
Investments and acquisitions of businesses, net of cash received	—	(42)	(189)	—	(231)	—	—	—	(231)
Advance to Issuer	(111)	—	—	111	—	—	—	—	—
Net cash used in investing activities	(111)	(151)	(225)	111	(376)	—	—	—	(376)
Cash flows from financing activities									
Dividend by Acquisition Corp. to Holdings Corp.	—	(94)	—	—	(94)	—	—	—	(94)
Proceeds from issuance of Acquisition Corp. 3.625% Senior Notes due 2026	514	—	—	—	514	—	—	—	514
Repayment of Acquisition Corp. 4.125% Senior Secured Notes	(40)	—	—	—	(40)	—	—	—	(40)
Repayment of Acquisition Corp. 4.875% Senior Secured Notes	(30)	—	—	—	(30)	—	—	—	(30)
Repayment of Acquisition Corp. 5.625% Senior Secured Notes	(247)	—	—	—	(247)	—	—	—	(247)
Call premiums paid on early redemption of debt	(5)	—	—	—	(5)	—	—	—	(5)
Deferred financing costs paid	(7)	—	—	—	(7)	—	—	—	(7)
Distribution to noncontrolling interest holder	—	—	(3)	—	(3)	—	—	—	(3)
Change in due to (from) issuer	—	111	—	(111)	—	—	—	—	—
Net cash provided by (used in) financing activities	185	17	(3)	(111)	88	—	—	—	88
Effect of exchange rate changes on cash and equivalents	—	—	(7)	—	(7)	—	—	—	(7)
Net increase (decrease) in cash and equivalents	—	217	(112)	—	105	—	—	—	105
Cash and equivalents at beginning of period	—	169	345	—	514	—	—	—	514
Cash and equivalents at end of period	$ —	$ 386	$ 233	$ —	$ 619	$ —	$ —	$ —	$ 619

COEX-
9.19

Consolidating Statement of Cash Flows
For The Fiscal Year Ended September 30, 2018

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Cash flows from operating activities									
Net income	$ 307	$ 61	$ 104	$ (160)	$ 312	$ 307	$ 307	$ (614)	$ 312
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation and amortization	—	136	125	—	261	—	—	—	261
Unrealized gains/losses and remeasurement of foreign-denominated loans	(3)	—	—	—	(3)	—	—	—	(3)
Deferred income taxes	—	—	66	—	66	—	—	—	66
Loss on extinguishment of debt	31	—	—	—	31	—	—	—	31
Net loss (gain) on divestitures and investments	(504)	78	37	—	(389)	—	—	—	(389)
Non-cash interest expense	6	—	—	—	6	—	—	—	6
Equity-based compensation expense	—	62	—	—	62	—	—	—	62
Equity losses (gains), including distributions	(207)	(122)	—	329	—	(307)	(307)	614	—
Changes in operating assets and liabilities:									
Accounts receivable, net	—	(48)	5	—	(43)	—	—	—	(43)
Inventories	—	(5)	2	—	(3)	—	—	—	(3)
Royalty advances	—	24	7	—	31	—	—	—	31
Accounts payable and accrued liabilities	—	449	(198)	(169)	82	—	—	—	82
Royalty payables	—	48	(26)	—	22	—	—	—	22
Accrued interest	(10)	—	—	—	(10)	—	—	—	(10)
Deferred revenue	—	(48)	44	—	(4)	—	—	—	(4)
Other balance sheet changes	—	89	(85)	—	4	—	—	—	4
Net cash (used in) provided by operating activities	(380)	724	81	—	425	—	—	—	425
Cash flows from investing activities									
Acquisition of music publishing rights, net	—	(11)	(3)	—	(14)	—	—	—	(14)
Capital expenditures	—	(60)	(14)	—	(74)	—	—	—	(74)
Investments and acquisitions of businesses, net	—	(17)	(6)	—	(23)	—	—	—	(23)
Divestitures, net	504	12	—	—	516	—	—	—	516
Advance to Issuer	(99)	—	—	99	—	—	—	—	—
Net cash provided by (used in) investing activities	405	(76)	(23)	99	405	—	—	—	405
Cash flows from financing activities									
Dividend by Acquisition Corp. to Holdings Corp.	—	(925)	—	—	(925)	—	—	—	(925)
Proceeds from issuance of Acquisition Corp. 5.500% Senior Notes	325	—	—	—	325	—	—	—	325
Proceeds from issuance of Acquisition Corp. Senior Term Loan Facility	320	—	—	—	320	—	—	—	320
Repayment of Acquisition Corp. 6.750% Senior Secured Notes	(635)	—	—	—	(635)	—	—	—	(635)
Call premiums paid on early redemption of debt	(23)	—	—	—	(23)	—	—	—	(23)
Deferred financing costs paid	(12)	—	—	—	(12)	—	—	—	(12)
Distribution to noncontrolling interest holder	—	—	(5)	—	(5)	—	—	—	(5)
Change in due (from) to issuer	—	99	—	(99)	—	—	—	—	—
Net cash used in financing activities	(25)	(826)	(5)	(99)	(955)	—	—	—	(955)
Effect of exchange rate changes on cash and equivalents	—	—	(8)	—	(8)	—	—	—	(8)
Net increase in cash and equivalents	—	(178)	45	—	(133)	—	—	—	(133)
Cash and equivalents at beginning of period	—	347	300	—	647	—	—	—	647
Cash and equivalents at end of period	$ —	$ 169	$ 345	$ —	$ 514	$ —	$ —	$ —	$ 514

Consolidating Statement of Cash Flows
For The Fiscal Year Ended September 30, 2017

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Cash flows from operating activities									
Net income	$ 143	$ 282	$ 59	$ (335)	$ 149	$ 143	$ 143	$ (286)	$ 149
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation and amortization	—	137	114	—	251	—	—	—	251
Unrealized gains/losses and remeasurement of foreign-denominated loans	27	—	(3)	—	24	—	—	—	24
Deferred income taxes	2	—	(194)	—	(192)	—	—	—	(192)
Loss on extinguishment of debt	35	—	—	—	35	—	—	—	35
Net loss (gain) on divestitures and investments	—	33	(16)	—	17	—	—	—	17
Non-cash interest expense	8	—	—	—	8	—	—	—	8
Equity-based compensation expense	—	70	—	—	70	—	—	—	70
Equity losses (gains), including distributions	(124)	(86)	—	210	—	(143)	(143)	286	—
Changes in operating assets and liabilities:									
Accounts receivable, net	—	(37)	(23)	—	(60)	—	—	—	(60)
Inventories	—	2	(1)	—	1	—	—	—	1
Royalty advances	—	2	15	—	17	—	—	—	17
Accounts payable and accrued liabilities	(120)	(4)	47	125	48	—	—	—	48
Royalty payables	—	126	10	—	136	—	—	—	136
Accrued interest	3	—	—	—	3	—	—	—	3
Deferred revenue	—	(6)	28	—	22	—	—	—	22
Other balance sheet changes	5	(204)	205	—	6	—	—	—	6
Net cash (used in) provided by operating activities	(21)	315	241	—	535	—	—	—	535
Cash flows from investing activities									
Acquisition of music publishing rights, net	—	(9)	(7)	—	(16)	—	—	—	(16)
Capital expenditures	—	(31)	(13)	—	(44)	—	—	—	(44)
Investments and acquisitions of businesses, net	—	(6)	(133)	—	(139)	—	—	—	(139)
Divestitures, net	—	42	31	—	73	—	—	—	73
Advance to Issuer	60	—	—	(60)	—	—	—	—	—
Net cash provided by (used in) investing activities	60	(4)	(122)	(60)	(126)	—	—	—	(126)
Cash flows from financing activities									
Dividend by Acquisition Corp. to Holdings Corp.	—	(84)	—	—	(84)	84	—	—	—
Proceeds from issuance of Acquisition Corp. 4.125% Senior Secured Notes	380	—	—	—	380	—	—	—	380
Proceeds from issuance of Acquisition Corp. 4.875% Senior Secured Notes	250	—	—	—	250	—	—	—	250
Proceeds from issuance of Acquisition Corp. Senior Term Loan Facility	22	—	—	—	22	—	—	—	22
Repayment of Acquisition Corp. 6.000% Senior Secured Notes	(450)	—	—	—	(450)	—	—	—	(450)
Repayment of Acquisition Corp. 6.250% Senior Secured Notes	(173)	—	—	—	(173)	—	—	—	(173)
Repayment of Acquisition Corp. 5.625% Senior Secured Notes	(28)	—	—	—	(28)	—	—	—	(28)
Call premiums paid on early redemption of debt	(27)	—	—	—	(27)	—	—	—	(27)
Deferred financing costs paid	(13)	—	—	—	(13)	—	—	—	(13)
Distribution to noncontrolling interest holder	—	—	(5)	—	(5)	—	—	—	(5)
Dividends paid	—	—	—	—	—	(84)	—	—	(84)
Change in due (from) to issuer	—	(60)	—	60	—	—	—	—	—
Net cash (used in) provided by financing activities	(39)	(144)	(5)	60	(128)	—	—	—	(128)
Effect of exchange rate changes on cash and equivalents	—	—	7	—	7	—	—	—	7
Net increase in cash and equivalents	—	167	121	—	288	—	—	—	288
Cash and equivalents at beginning of period	—	180	179	—	359	—	—	—	359
Cash and equivalents at end of period	$ —	$ 347	$ 300	$ —	$ 647	$ —	$ —	$ —	$ 647

COEX-
9.19

WARNER MUSIC GROUP CORP.

Schedule II — Valuation and Qualifying Accounts

Description	Balance at Beginning of Period	Additions Charged to Cost and Expenses	Deductions	Balance at End of Period
		(in millions)		
Year Ended September 30, 2019				
Allowance for doubtful accounts	$ 18	$ 3	$ (4)	$ 17
Reserves for sales returns	28	88	(93)	23
Allowance for deferred tax asset	206	4	(119)	91
Year Ended September 30, 2018				
Allowance for doubtful accounts	$ 18	$ 4	$ (4)	$ 18
Reserves for sales returns	33	108	(113)	28
Allowance for deferred tax asset	193	33	(20)	206
Year Ended September 30, 2017				
Allowance for doubtful accounts	$ 19	$ 3	$ (4)	$ 18
Reserves for sales returns	33	119	(119)	33
Allowance for deferred tax asset	310	23	(140)	193

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Certification

The certifications of the principal executive officer and the principal financial officer (or persons performing similar functions) required by Rules 13a-14(a) and 15d-14(a) of the Exchange Act (the "Certifications") are filed as exhibits to this report. This section of the report contains the information concerning the evaluation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) ("Disclosure Controls") and changes to internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) ("Internal Controls") referred to in the Certifications and this information should be read in conjunction with the Certifications for a more complete understanding of the topics presented.

Introduction

The SEC's rules define "disclosure controls and procedures" as controls and procedures that are designed to ensure that information required to be disclosed by public companies in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by public companies in the reports that they file or submit under the Exchange Act is accumulated and communicated to a company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The SEC's rules define "internal control over financial reporting" as a process designed by, or under the supervision of, a public company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, or U.S. GAAP, including 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 the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company 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.

The Company's management, including its principal executive officer and principal financial officer, does not expect that our Disclosure Controls or Internal Controls will prevent or detect all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the limitations in any and all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Further, the design of any control system is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected even when effective Disclosure Controls and Internal Controls are in place.

Evaluation of Disclosure Controls and Procedures

Based on management's evaluation (with the participation of the Company's principal executive officer and principal financial officer), as of the end of the period covered by this report, the Company's principal executive officer and principal financial officer have concluded that the Company's Disclosure Controls are effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act will be recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, including that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

Beginning October 1, 2018, the Company implemented the new revenue standard pursuant to Financial Accounting Standards Board, Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers*. As a result of this adoption, the Company recorded a material decrease to opening accumulated deficit as of October 1, primarily due to the transition from a cash basis to accrual basis accounting. As such, the Company implemented changes to its processes related to revenue recognition and the control activities within them. These included the development of new policies based on the five-step model provided in the new revenue standard, training, contract review requirements and gathering of information provided for the disclosures required in the Company's SEC interim and annual filings. There were no other changes in our internal control over financial reporting that occurred during the fiscal year ended September 30, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management's report on internal control over financial reporting is located on page 68 of this report.

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERANCE

The following is a list of our current executive officers and directors, their ages as of November 27, 2019, and their positions and offices.

Name	Age	Position
Stephen Cooper	73	Chief Executive Officer; Director
Max Lousada	46	Chief Executive Officer, Recorded Music; Director
Eric Levin	57	Executive Vice President and Chief Financial Officer
Carianne Marshall	42	Co-Chair and Chief Operating Officer, Warner Chappell Music
Guy Moot	54	Co-Chair and Chief Executive Officer, Warner Chappell Music
Maria Osherova	54	Executive Vice President, Chief Human Resources Officer
Paul M. Robinson	61	Executive Vice President and General Counsel and Secretary
Oana Ruxandra	38	Executive Vice President, New Business Development—Chief Acquisition Officer
James Steven	42	Executive Vice President, Chief Communications Officer
Michael Lynton	59	Chairman of the Board
Len Blavatnik	62	Vice Chairman of the Board
Lincoln Benet	56	Director
Alex Blavatnik	55	Director
Mathias Döpfner	56	Director
Noreena Hertz	52	Director
Ynon Kreiz	54	Director
Thomas H. Lee	75	Director
Donald A. Wagner	56	Director

Our executive officers are appointed by, and serve at the discretion of, the Company's board of directors. Each executive officer is an employee of the Company or one of its subsidiaries. The following information provides a brief description of the business experience of each of our executive officers and directors.

Stephen Cooper, 73, has served as a director since July 20, 2011 and as our CEO since August 18, 2011. Previously, Mr. Cooper was our Chairman of the Company's board of directors from July 20, 2011 to August 18, 2011. Mr. Cooper is a member of the Board of Directors of LyondellBasell, one of the world's largest olefins, polyolefins, chemicals and refining companies. He has more than 30 years of experience as a financial advisor, and has served as Chief Executive Officer of Metro-Goldwyn-Mayer, Inc.; Chief Executive Officer of Hawaiian Telcom; Executive Chairman of Blue Bird Corporation; Executive Chairman of the Board of Collins & Aikman Corporation; Chief Executive Officer of Krispy Kreme Doughnuts; and Chief Executive Officer and Chief Restructuring Officer of Enron Corporation. Mr. Cooper also serves on the Board of Directors of LyondellBasell Industries N.V. Mr. Cooper is also the Managing Partner of Cooper Investment Partners, a private equity firm.

Max Lousada, *46*, has served as a director since October 1, 2017 and as our CEO, Recorded Music, since October 1, 2017. He oversees the Company's worldwide Recorded Music business, including Atlantic, Warner Records, Elektra, Parlophone, Warner Music Nashville, Global Catalog/Rhino and Warner Classics, as well as the Company's international Recorded Music affiliates, and WMG's Artist & Label Services divisions, WEA Corp. and ADA. Before taking his latest role, Mr. Lousada was the Chairman & CEO of Warner Music UK, where he was responsible for overseeing the Company's U.K. family of labels during a four-year run of record-breaking success. In addition, he served as Chairman of the BRITs Committee from 2014 to 2016. Mr. Lousada previously headed up Atlantic Records U.K. for nine years, where he built an award-winning team and roster of artists. Prior to his tenure at Atlantic U.K., Mr. Lousada led A&R at Mushroom Records.

Eric Levin, *57*, has served as our Executive Vice President and Chief Financial Officer since October 13, 2014. From October 2012 to June 2014, he served as the financial director of Ecolab (China) Investment Co. Ltd, a multinational technology and manufacturing group in China. From May 1988 to December 2001, he worked in various financial functions at Home Box Office, Inc., a subsidiary of Time Warner, and was promoted to CFO from January 2000 to December 2001. Thereafter and until 2011, he served in various operational and financial roles in companies in the media and publishing industry. From 2004 to 2007, he was the Co-Founder and CEO of City on Demand, LLC, a television production company. From 2009 to 2011, Mr. Levin was CFO at SCMP Group Limited, a company listed on the Hong Kong Stock Exchange, which is a leading Asia media holding company, and joined the board of The Post Publishing Public Company Limited, a company listed on the Stock Exchange of Thailand, which publishes newspapers

and magazines. Mr. Levin obtained a B.S. in Electrical Engineering from the University of Pennsylvania in May 1984 and an M.B.A. in finance and economics from the University of Chicago Graduate School of Business in March 1988.

Carianne Marshall, 42, has served as Co-Chair and Chief Operating Officer of Warner Chappell Music since January 2019. Ms. Marshall joined Warner Chappell in June 2018 as Chief Operating Officer of Warner Chappell. Prior to joining Warner Chappell in June 2018, she was Partner, Head of Creative Services, and Head of Creative Licensing at SONGS, the noted independent music publisher, which she joined in 2006. Ms. Marshall served as SONGS' executive leader on the West Coast, helping to build a roster of over 300 songwriters and overseeing a creative licensing staff responsible for placing compositions by SONGS' writers in all forms of visual media and overseeing the non-top 40 roster. From 2003 to 2006, Ms. Marshall was Director of Motion Picture and Television Music at Universal Music Publishing Group, and from 2000 to 2003, she worked at DreamWorks Music Publishing, where she was an A&R coordinator and subsequently the company's synchronization executive. Ms. Marshall also held previous roles at Elektra Records and Universal Music Publishing. She began her career in the music entertainment industry at Los Angeles-based VOX Productions, where she worked in live music production, while helping manage and book local bands. Ms. Marshall obtained a B.A. degree in Communications from the University of Southern California.

Guy Moot, 54, has served as Co-Chair and Chief Executive Officer of Warner Chappell Music since April 1, 2019. From 2017 until 2019, Mr. Moot served as President of Worldwide Creative at Sony/ATV, where he led the company's efforts to seek out the best songwriting talent, regardless of their country of origin. From 2005 to 2017, Mr. Moot was Managing Director of EMI Music Publishing UK and President of European Creative where his leadership played a key role in ensuring that EMI was named Music Week Publisher of the Year for fourteen years running. During that time, Mr. Moot led the Sony/ATV and EMI Music Publishing merger across Europe in 2012, and, from 2016 to 2017, he led the company to a record-breaking, year-long hold on the UK Number 1 Singles spot. From 2003 to 2005, Mr. Moot was EMI Music Publishing's Executive Vice President of A&R for the UK and Europe.

Maria Osherova, 54, has served as our Executive Vice President, Chief Human Resources Officer since July 29, 2014. Ms. Osherova joined the Company in 2006 as Vice President, Human Resources for Warner Music International, based in London. Advancing to Senior Vice President of Warner Music International, she played a pivotal role in the successful integration of Parlophone Label Group within the Company. Prior to joining the Company, Ms. Osherova was Global HR Manager for a division of Shell International Petroleum, where she headed a department responsible for employees in over 120 countries. She previously held several posts at The Coca-Cola Company, based variously in Copenhagen, Oslo, and St. Petersburg. Osherova studied at St. Petersburg State Technical University, where she was awarded a Master of Sciences degree.

Paul M. Robinson, 61, has served as our Executive Vice President and General Counsel and Secretary since December 2006. He is responsible for our worldwide legal and business affairs and public policy functions. Mr. Robinson joined the Company's legal department in 1995. From 1995 to December 2006, Mr. Robinson held various positions with the Company, including Acting General Counsel and Senior Vice President, Deputy General Counsel. Before joining the Company, Mr. Robinson was a partner in the New York City law firm Mayer, Katz, Baker, Leibowitz & Roberts. Mr. Robinson has a B.A. in English from Williams College and a J.D. from Fordham University School of Law.

Oana Ruxandra, 38, has served as interim head of business development for our Recorded Music business since June 2019. In such capacity, Ms. Ruxandra oversees global business development and digital strategy for our Recorded Music business, with a focus on exploring new forms of commercial innovation and creating new digital revenue opportunities. Since December 2018, Ms. Ruxandra has served as Executive Vice President, New Business Channels—Chief Acquisition Officer, a role that requires her to attract non-traditional partners and identify unconventional M&A opportunities. From 2016 until December 2018, she served as Senior Vice President of Digital Strategy and Partnerships at Universal Music Group, prior to which she spent four years at the Company, advancing to Vice President of Digital Strategy and Business Development. Ms. Ruxandra previously spent seven years in the financial industry at firms such as BlackRock and Constellation Capital Management. Ms. Ruxandra received her B.A. in Economics and Political Science from Columbia University and her M.B.A. from The Wharton School at the University of Pennsylvania.

James Steven, 42, has served as Executive Vice President, Chief Communications Officer since January 1, 2015. He is responsible for our worldwide communications and corporate marketing functions, including external and internal communications, investor relations, social responsibility and special events. He also oversees the interaction and coordination of the communications functions of our operating companies. Mr. Steven joined the Company in 2007 as part of the Company's international communications team based in London. He relocated to New York in 2012, becoming Senior Vice President, Communications and Marketing. Prior to joining the Company, Mr. Steven held various roles at public relations and marketing agencies, including Cow PR and Consolidated PR, working with clients in the film, TV, technology, retail, beverages and automobile industries. Mr. Steven holds an M.A. (Honors) degree from the University of Edinburgh.

Michael Lynton, 59, has served as Chairman of the Board of WMG since February 7, 2019. Mr. Lynton also currently serves as Chairman of the Board of Snap, Inc., a position he has held since 2016 after joining Snap Inc.'s board in 2013, and is a member of the board of directors of Pearson plc. and Ares Management, L.P. Previously, Mr. Lynton served as the CEO of Sony Entertainment

from April 2012 until February 2017, overseeing Sony's global entertainment businesses, including Sony Music Entertainment, Sony/ATV Music Publishing and Sony Pictures Entertainment. Mr. Lynton also served as Chairman and CEO of Sony Pictures Entertainment since January 2004. Prior to joining Sony Pictures, Mr. Lynton worked for Time Warner, and from 2000 to 2004, he served as CEO of AOL Europe, President of AOL International and President of Time Warner International. From 1996 to 2000, Mr. Lynton served as Chairman and CEO of Pearson plc's Penguin Group where he oversaw the acquisition of Putnam, Inc. and extended the Penguin brand to music and the Internet. Mr. Lynton joined the Walt Disney Company in 1987, and from 1992 to 1996, he served as President of Disney's Hollywood Pictures. Mr. Lynton is also a member of the Harvard Board of Overseers and serves on the boards of the Los Angeles County Museum of Art, the Tate, and the Rand Corporation. Mr. Lynton holds a B.A. in History and Literature from Harvard College and received his M.B.A. from Harvard University.

Len Blavatnik, 62, has served as a director and as Vice Chairman of the Board of the Company since July 20, 2011. Mr. Blavatnik is the founder and Chairman of Access, a privately held, U.S. industrial group with global strategic investments. He previously served as a member of the board of directors of the Company from March 2004 to January 2008. Mr. Blavatnik provides financial support to, and remains engaged in, many educational pursuits. Mr. Blavatnik is a member of boards at Oxford University and Tel Aviv University, and is a member of Harvard University's Committee on University Resources, Global Advisory Council and the Task Force on Science and Engineering. In 2010, the Blavatnik Family Foundation committed £75 million to establish the Blavatnik School of Government at the University of Oxford. Mr. Blavatnik and the Blavatnik Family Foundation have also been generous supporters of other leading educational, scientific, cultural and charitable institutions throughout the world. Mr. Blavatnik is a member of the board of directors of the 92nd Street Y in New York, The Mariinsky Foundation of America, The Carnegie Hall Society, Inc. and The Center for Jewish History in New York. He is also a Trustee of the State Hermitage Museum in St. Petersburg, Russia. Mr. Blavatnik emigrated to the U.S. in 1978 and became a U.S. citizen in 1984. He received his Master's degree from Columbia University in 1981 and his M.B.A from Harvard Business School in 1989. Mr. Blavatnik is the brother of Alex Blavatnik.

Lincoln Benet, 56, has served as a director since July 20, 2011. Mr. Benet is the Chief Executive Officer of Access. Prior to joining Access in 2006, Mr. Benet spent 17 years at Morgan Stanley, most recently as a Managing Director. His experience spans corporate finance, mergers and acquisitions, fixed income and capital markets. Mr. Benet is a member of the Supervisory Board of Directors for LyondellBasell Industries N.V. and a member of the boards of DAZN Group Limited and, until 2019, Clal Industries Ltd. Mr. Benet graduated summa cum laude with a B.A. in Economics from Yale University and received his M.B.A. from Harvard Business School.

Alex Blavatnik, 55, has served as a director since July 20, 2011. Mr. Blavatnik is an Executive Vice President and Vice Chairman of Access. A 1993 graduate of Columbia University, Mr. Blavatnik joined Access in 1996 to manage the Company's growing activities in Russia. Currently, he oversees Access's operations out of its New York-based headquarters and serves as a director of various companies in the Access global portfolio. In addition, Mr. Blavatnik is engaged in numerous philanthropic pursuits and sits on the boards of several educational and charitable institutions. Mr. Blavatnik is the brother of Len Blavatnik.

Mathias Döpfner, 56, has served as a director since May 1, 2014. Mr. Döpfner is Chairman and CEO of German media group Axel Springer SE in Berlin. Holding a stake of about 3%, Mr. Döpfner is also one of the company's largest shareholders. Axel Springer is the leading digital publisher in Europe and is active in more than 40 countries. Publishing brands include BILD, WELT and BUSINESS INSIDER. Since Mr. Döpfner became CEO in 2002, Axel Springer revenues from digital activities increased from €117 million to €2.3 billion and worldwide digital audience expanded to more than 300 million users. Mr. Döpfner is also a member of the Board of Directors of Netflix Inc.

Noreena Hertz, 52, has served as a director since September 15, 2017 and previously served as a director from May 1, 2014 through May 22, 2016. Professor Hertz advises some of the biggest organizations and most senior figures in the world on strategy, decision-making, corporate social responsibility and global economic and geo-political trends. Her best-selling books, Eyes Wide Open, the Silent Takeover and IOU: The Debt Threat, have been published in 22 countries. Professor Hertz served as a member of Citigroup's Politics and Economics Global Advisory Board between 2007 and 2008 and as a member of the Advisory Group steering McKinsey CEO Dominic Barton's Inclusive Capitalism Taskforce between 2012 and 2013. A much sought-after commentator on television and radio Hertz contributes to a wide range of publications and networks including *The BBC*, *CNN*, *CNBC*, *CBS*, *ITV*, *The New York Times*, *The Wall Street Journal*, *The Daily Beast*, the *Financial Times*, the *Guardian*, *The Washington Post*, *The Times of London*, *Wired*, and *Nature*. She has given Keynote Speeches at *TED* and *The World Economic Forum*, as well as for leading global corporations, and has shared platforms with such luminaries as President Bill Clinton and James Wolfensohn. An influential economist on the international stage, Professor Hertz also played a pivotal role in the development of (RED), an innovative commercial model to raise money for people with AIDS in Africa, having inspired Bono (co-founder of the project) with her writings. Professor Hertz has been described by the *Observer* as "one of the world's leading young thinkers," *Vogue* as "one of the world's most inspiring women" and was featured on the cover of *Newsweek*'s September 30, 2013 issue in Europe, Asia and the Middle East. She has an M.B.A from the Wharton School of the University of Pennsylvania and a Ph.D. from the University of Cambridge. Having spent 10 years at the University of Cambridge as Associate Director of the Centre for International Business and Management, in 2014 she moved to University College London where she is a Visiting Professor at the Institute for Global Prosperity.

Ynon Kreiz, 54, has served as a director since May 9, 2016. Since April 26, 2018, Mr. Kreiz has been the Chairman and CEO of Mattel, Inc. (NASDAQ: MAT), one of the world's largest toy companies. From March 2012 to January 2016, Mr. Kreiz served as the Chairman and CEO of Maker Studios, a global leader in online short-form video and one of the largest content networks on YouTube. From June 2008 to June 2011, Mr. Kreiz was Chairman and CEO of Endemol Group, one of the world's largest independent television production companies. From 2005 to 2007, Mr. Kreiz was a General Partner at Balderton Capital (formerly Benchmark Capital Europe). From 1996 to 2002, Mr. Kreiz was co-founder, Chairman and CEO of Fox Kids Europe N.V., a leading pay-TV channel in Europe and the Middle East, broadcasting in 56 countries. FKE was listed on the Euronext Stock Exchange in Amsterdam in 1999. Mr. Kreiz holds a B.A. in Economics and Management from Tel Aviv University and an M.B.A. from UCLA's Anderson School of Management, where he currently serves on the Board of Advisors.

Thomas H. Lee, 75, has served as a director since August 17, 2011. Mr. Lee had previously served as our director from March 4, 2004 to July 20, 2011. He is Chairman and CEO of Thomas H. Lee Capital, LLC, Chairman of Lee Equity Partners, LLC and Chairman of AGL Credit Management LP. In 1974, Mr. Lee founded the Thomas H. Lee Company, the predecessor of Thomas H. Lee Partners, L.P., and from that time until March 2006 served as its Chairman and CEO. From 1966 through 1974, Mr. Lee was with First National Bank of Boston where he directed the bank's high technology lending group from 1968 to 1974 and became a Vice President in 1973. Prior to 1966, Mr. Lee was a securities analyst in the institutional research department of L.F. Rothschild in New York. Mr. Lee serves or has served, including during the past five years, as a director of numerous public and private companies in which he and his affiliates have invested, including MidCap Financial LLC, Papa Murphy's International, LLC, Edelman Financial Services, LLC, Aimbridge Hospitality Holdings LLC and KMAC Enterprises Inc. Mr. Lee is currently a Trustee of Lincoln Center for the Performing Arts, NYU Langone Medical Center and the New York City Police Foundation among other civic and charitable organizations. He also serves on the Executive Committee for Harvard University's Committee on University Resources. Mr. Lee is a 1965 graduate of Harvard College.

Donald A. Wagner, 56, has served as a director since July 20, 2011. Mr. Wagner is a Managing Director of Access, having been with Access since 2010. He oversees Access' North America direct investing activities. From 2000 to 2009, Mr. Wagner was a Senior Managing Director of Ripplewood Holdings L.L.C., responsible for investments in several areas and heading the industry group focused on investments in basic industries. Previously, Mr. Wagner was a Managing Director of Lazard Freres & Co. LLC and had a 15-year career at that firm and its affiliates in New York and London. He is a board member of EP Energy, Calpine Corporation and BMC Software and was on the board of NYSE-listed RSC Holdings from November 2006 until August 2009. Mr. Wagner graduated summa cum laude with an A.B. in physics from Harvard College.

Board of Directors

Our business and affairs are managed under the direction of the Company's board of directors. Our board of directors currently consists of 11 members. Under our amended and restated certificate of incorporation and by-laws, our board of directors shall consist of such number of directors as determined from time to time by resolution adopted by the board. Our directors hold office until their successors have been elected and qualified or until the earlier of their resignation or removal.

When considering whether directors have the experience, qualifications, attributes or skills, taken as a whole, to enable the Company's board of directors to satisfy its oversight responsibilities effectively in light of our business and structure, the Company's board of directors focuses primarily on each person's background and experience as reflected in the information discussed in each of the directors' individual biographies set forth above. In the view of the Company's board of directors, its directors provide an appropriate mix of experience and skills relevant to the size and nature of our business. In particular, each of our directors brings specific experience, qualifications, attributes and skills to our board.

The directors affiliated with Access, Messrs. Len Blavatnik, Benet, Alex Blavatnik, and Wagner, each brings beneficial experience and attributes to our board of directors. Len Blavatnik has extensive experience advising companies, particularly as founder and Chairman of Access and in his role as a former director of UC Rusal plc and TNK-BP Limited. Mr. Benet has extensive experience in advising companies, in particular as the Chief Executive Officer of Access, in his role as a director of LyondellBasell Industries N.V. and in his former role as a director of Clal Industries Ltd. Alex Blavatnik has extensive experience advising companies, particularly as Vice Chairman of Access, as a director of Clal Industries Ltd. and, previously, as a director of OGIP Ventures, Ltd. Mr. Wagner has served as a director of various companies, including public companies, and has over 25 years of experience in investing, banking and private equity. In addition to their individual attributes, each of the directors affiliated with Access possesses experience in advising and managing publicly traded and privately held enterprises and is familiar with the corporate finance and strategic business planning activities that are unique to leveraged companies.

Mr. Lynton brings beneficial experience and attributes to our board of directors, including his various experiences in the entertainment industry, advising and managing companies.

Mr. Cooper has more than 30 years of experience as a financial advisor, and has served as chairman or chief executive officer of various businesses, including Chief Executive Officer of Metro-Goldwyn-Mayer, Inc. and Chief Executive Officer of Hawaiian Telcom.

Mr. Lousada is involved in managing the day-to-day business of our Company, providing him with intimate knowledge of our operations, and he has significant experiences in the entertainment industry, advising and managing companies.

Mr. Döpfner has extensive experience in the media industry. Through his positions as Chairman and CEO of Axel Springer, he has a profound understanding of the challenges and developments of today's business, such as content creation and monetization or distribution and digital platforms.

Professor Hertz has over 25 years of experience in advising companies in a variety of sectors and geographies on strategic and policy decisions, intelligence gathering and analysis, millennials and post-millennials and stakeholder management and corporate social responsibility. She has also held senior academic positions where her research has focused on decision-making, risk assessment and management, globalization, innovation and corporate social responsibility.

Mr. Kreiz has extensive experience advising and managing companies, having served as Chairman and CEO of Maker Studios and the Endemol Group and also as a general partner at Balderton Capital (formerly Benchmark Capital Europe).

Mr. Lee has extensive experience advising and managing companies, serving as the Chairman and CEO of Thomas H. Lee Capital, LLC, Thomas H. Lee Capital Management, LLC and Lee Equity Partners, LLC and serving as or having served as a director of numerous public and private companies. Mr. Lee was also part of the investor group that acquired Warner Music Group from Time Warner in the 2004 Acquisition and was a director of our company from March 2004 until July 2011, before subsequently rejoining the board of directors in August 2011, and has a detailed understanding of our Company.

Our board of directors believes that the qualifications described above bring a broad set of complementary experience to the Company's board of directors' discharge of its responsibilities, coupled with a strong alignment with the interests of the stockholder of our Company.

Committees of the Board of Directors

Following consummation of the Merger, we became a privately held company. As a result, we are no longer subject to any stock exchange listing or SEC rules requiring a majority of our board of directors to be independent or relating to the formation and functioning of the various board committees. The board of directors of the Company has an Audit Committee, a Compensation Committee, a Finance Committee and a Dividend Committee, all of which report to the Company's board of directors as they deem appropriate, and as the board of directors may request. Affiliates of Access own 100% of our common stock and have the power to elect our directors. Thus the board of directors has determined that it is not necessary for us to have a Nominating Committee or a committee performing similar functions. The Company's board of directors does not have a policy with regard to the consideration of any director candidates recommended by our debt holders or other parties.

The Audit Committee is responsible for overseeing the accounting and financial reporting processes of the Company and audits of the financial statements of the Company and its subsidiaries. The Audit Committee is responsible for assisting the board of directors' oversight of (a) the quality and integrity of the Company's financial statements and related disclosure; (b) the independent auditor's qualifications and independence; (c) the evaluation and management of the Company's financial risks; (d) the performance of the Company's internal audit function and independent auditor; and (e) the Company's compliance with legal and regulatory requirements. The Audit Committee's duties include, when appropriate, as permitted under applicable law, amending or supplementing the Company's Delegation of Authority Policy without the prior approval of the board of directors. The current members of the Company's audit committee are Messrs. Wagner, Kreiz and Lee. Mr. Wagner serves as the chairman of the committee. Messrs. Kreiz and Wagner qualify as "audit committee financial experts," as defined by SEC rules, based on their education, experience and background.

The Compensation Committee discharges the responsibilities of the Company's board of directors of the Company relating to all compensation, including equity compensation, of the Company's executives. The Compensation Committee has overall responsibility for evaluating and making recommendations to the board of directors regarding director and officer compensation, compensation under the Company's long-term incentive plans and other compensation policies and programs. The current members of the Company's Compensation Committee are Messrs. Benet, Lee and Wagner and Alex Blavatnik and Len Blavatnik. Mr. Benet serves as the chairman of the committee.

As of September 26, 2017, the Finance Committee discharges the responsibilities of the board of directors of the Company relating to all debt financing transactions. The current members of the Company's Finance Committee are Messrs. Benet, Cooper, Wagner and Alex Blavatnik.

As of November 30, 2016, the Dividend Committee discharges the responsibilities of the board of directors of the Company relating to all dividend and dividend equivalent declarations and payments. The current members of the Company's Dividend Committee are Messrs. Benet, Cooper, Wagner and Alex Blavatnik.

Oversight of Risk Management

On behalf of the Company's board of directors, our Audit Committee is responsible for oversight of the Company's risk management and assessment guidelines and policies. We are exposed to a number of risks including financial risks, operational risks and risks relating to regulatory and legal compliance. The Audit Committee discusses with management and the independent auditors the Company's major financial risk exposures and the steps management has taken to monitor and control such exposures, including the guidelines and policies to govern the process by which risk assessment and risk management are undertaken. The Company's Chief Compliance Officer and Head of Internal Audit are responsible for the Company's risk management function and regularly work closely with the Company's senior executives to identify risks material to the Company. Both the Chief Compliance Officer and the Head of Internal Audit report regularly to the Chief Financial Officer, the Chief Executive Officer and the Audit Committee regarding the Company's risk management policies and procedures. In that regard, both the Chief Compliance Officer and Head of Internal Audit regularly meet with the Audit Committee to discuss the risks facing the Company, highlighting any new risks that may have arisen since they last met. The Audit Committee also reports to the Company's board of directors to apprise them of their discussions with the Chief Compliance Officer and Head of Internal Audit regarding the Company's risk management efforts. In addition, the Company's board of directors receives management updates on our business operations, financial results and strategy and, as appropriate, discusses and provides feedback with respect to risks related to those topics.

Section 16(a) Beneficial Ownership Reporting Compliance

Subsequent to the consummation of the Merger, as the Company no longer has a class of securities registered pursuant to Section 12 of the Exchange Act, none of its directors, officers or stockholders is subject to the reporting requirements of Section 16(a) of the Exchange Act.

Code of Conduct

The Company has adopted a Code of Conduct as our "code of ethics" as defined by regulations promulgated under the Securities Act, and the Exchange Act (and in accordance with the NYSE requirements for a "code of conduct"), which applies to all of the Company's directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. A current copy of the Code of Conduct is available on the Company's website at *www.wmg.com* by clicking on "Investor Relations" and then on "Corporate Governance." A copy of the Code of Conduct may also be obtained free of charge, from the Company upon a request directed to Warner Music Group Corp., 1633 Broadway, New York, NY 10019, Attention: Investor Relations. The Company will disclose within four business days any substantive changes in or waivers of the Code of Conduct granted to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, by posting such information on our website as set forth above rather than by filing a Form 8-K.

ITEM 11. EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This compensation discussion and analysis provides information about the material elements of compensation that are paid, awarded to, or earned by our "named executive officers," who consist of our principal executive officer, principal financial officer and our three other most highly compensated executive officers for fiscal year 2019. Our named executive officers ("NEOs") for fiscal year 2019 are:

- Stephen Cooper, Chief Executive Officer ("CEO")
- Eric Levin, Executive Vice President and Chief Financial Officer
- Max Lousada, Chief Executive Officer, Warner Recorded Music
- Carianne Marshall, Co-Chair and Chief Operating Officer, Warner Chappell Music
- Guy Moot, Co-Chair and Chief Executive Officer, Warner Chappell Music

Role of the Compensation Committee

The Compensation Committee is responsible for overseeing our compensation programs. As part of that responsibility, the Compensation Committee determines all compensation for the Company's executive officers. For executive officers other than the CEO, the Compensation Committee considers the recommendation of the CEO and the Executive Vice President, Human Resources in making its compensation determinations. The Committee interacts regularly with management regarding our executive compensation initiatives and programs. The Compensation Committee has the authority to engage its own advisors and had done so prior to the consummation of the Merger. However, during fiscal year 2019, no independent compensation advisor provided any advice or recommendations on the amount or form of executive and director compensation to the Compensation Committee and since the consummation of the Merger, we have not retained a compensation consultant to assist in determining or recommending the amount or form of executive compensation. The Compensation Committee may elect in the future to retain a compensation consultant if it determines that doing so would assist it in implementing and maintaining our compensation programs.

Our executive team consists of individuals with extensive industry expertise, creative vision, strategic and operational skills, in-depth company knowledge, financial acumen and high ethical standards. We are committed to providing competitive compensation packages to ensure that we retain these executives and maintain and strengthen our position as a leading global music entertainment company. Our executive compensation programs and the decisions made by the Compensation Committee are designed to achieve these goals. The compensation for the Company's NEOs (the executive officers for whom disclosure of compensation is provided in the tables below) consists of base salary and annual bonuses. In addition, two of our NEOs, Messrs. Cooper and Lousada, participate, based on their individual elections, in the Second Amended and Restated Warner Music Group Corp. Senior Management Free Cash Flow Plan (the "Plan"), our long-term incentive program. The NEOs do not receive any other compensation or benefits other than standard benefits available to all U.S. employees, which primarily consist of health plans, the opportunity to participate in the Company's 401(k) and deferred compensation plans, basic life insurance and accidental death insurance coverage. Additionally, because Mr. Lousada is located in the United Kingdom, he participates in our defined contribution pension scheme for our U.K. employees, and he also receives a car allowance and is reimbursed for certain tax preparation costs. Mr. Moot also participated in the defined contribution pension scheme for U.K. employees for a portion of the 2019 fiscal year during his employment in London, U.K., prior to his relocation to Los Angeles, California.

For the 2019 fiscal year, in determining the compensation of the NEOs, the Compensation Committee sought to establish a level of compensation that is (a) appropriate for the size and financial condition of the Company, (b) structured so as to attract and retain qualified executives and (c) tied to annual financial performance and long-term shareholder value creation.

The Company has entered into employment arrangements with each of our NEOs (other than Mr. Cooper), which establish each executive's base salary and, for Mr. Lousada, his entitlement to a percentage of our annual free cash flow under the Plan and, in the case of Messrs. Levin and Moot and Ms. Marshall, their discretionary or target annual bonus. The Company has not entered into an employment agreement with Mr. Cooper because, among other reasons, as a participant in the Plan (with an entitlement to a percentage of our annual free cash flow under the Plan), the Company believes he already has retention incentives to remain employed at the Company.

Executive Compensation Objectives and Philosophy

We design our executive compensation programs to attract talented executives to join the Company and to motivate them to position us for long-term success, achieve superior operating results and increase stockholder value. To realize these objectives, the

Compensation Committee and management focus on the following key factors when considering the amount and structure of the compensation arrangements for our executives:

- ***Alignment of executive and stockholder interests by providing incentives linked to operating performance and achievement of cash flow and strategic objectives.*** We are committed to creating stockholder value and believe that our executives and employees should be provided incentives through our compensation programs that align their interests with those of our stockholders. Accordingly, we provide our executives with annual cash bonus incentives linked to our operating performance. In addition, in 2013, we adopted the Plan, which, as described below, is an incentive compensation program that pays annual bonuses based on our free cash flow and offers participants the opportunity to share in appreciation of our common stock. For information on the components of our executive compensation programs and the reasons why each is used, see "Components of Executive Compensation" below.
- ***A clear link between an executive's compensation and Company-wide performance.*** Two of our NEOs (Messrs. Cooper and Lousada) and some of our other senior executives have elected to participate in the Plan. As further discussed below, the Plan, which is a significant part of our executive compensation program, is designed to reward our executives' contributions to our free cash flow and long-term value. For other executives, their compensation is designed to reward their achievement of specified key goals, which include, among other things, the successful implementation of strategic initiatives, realizing superior operating and financial performance, and other factors that we believe are important, such as the promotion of an ethical work environment and teamwork within the Company. We believe our compensation structure motivates our executives to achieve these goals and rewards them for their significant efforts and contributions to the Company and the results they achieve.
- ***The extremely competitive nature of the media and entertainment industry, and our need to attract and retain the most creative and talented industry leaders.*** We compete for talented executives in relatively high-priced markets, and the Compensation Committee takes this into consideration when making compensation decisions. For example, we compete for executives with other recorded music and music publishing companies, other entertainment, media and technology companies, law firms, private ventures, investment banks and many other companies that offer high levels of compensation. We believe that our senior management team is among the best in the industry and is the right team to lead us to long-term success. Our commitment to ensuring that we are led by the right executives is a high priority, and we make our compensation decisions accordingly.

Components of Executive Compensation

Employment Arrangements

With the exception of Mr. Cooper as described above, in the 2019 fiscal year we had employment arrangements with all of our NEOs, the key terms of which are described below under "Summary of NEO Employment Arrangements." We believe that having employment arrangements with certain of our executives can be beneficial to us because it provides retentive value, requires them to comply with key restrictive covenants, and may give us some competitive advantage in the recruiting process over a company that does not offer employment arrangements. Our employment arrangements set forth the terms and conditions of employment and establish the components of an executive's compensation, which generally include the following:

- Base salary;
- Participation in the free cash flow bonus pool of the Plan or a discretionary or target annual cash bonus;
- Severance payable upon a qualifying termination of employment; and
- Benefits, including participation in a defined contribution plan and health, life insurance and disability insurance plans.

Key Considerations in Determining Executive Compensation

The following describes the components of our NEO compensation arrangements and why each is included in our executive compensation programs.

Base Salary

The cash base salary an NEO receives is determined by the Compensation Committee after considering the individual's compensation history, the range of salaries for similar positions, the individual's expertise and experience, and other factors the Compensation Committee believes are important, such as whether we are trying to attract the executive from another opportunity. The Compensation Committee believes it is appropriate for executives to receive a competitive level of guaranteed compensation in the form of base salary and determines the initial base salary by taking into account recommendations from management and, if deemed necessary, the Compensation Committee's independent compensation consultant.

Each of our NEOs (other than Mr. Cooper) was paid base salary in accordance with the terms of their respective employment arrangement for fiscal year 2019. Mr. Cooper was paid annual base salary of $1,000,000 for fiscal year 2019.

Effective November 1, 2018, Ms. Marshall's annual base salary increased from $750,000 to $1,000,000, in recognition of additional duties and responsibilities she assumed in connection with the departure of Warner Chappell Music's former Chair and Chief Executive Officer. On February 1, 2019, her annual base salary increased to $1,250,000 in connection with her promotion to Co-Chair and Chief Operating Officer of Warner Chappell Music.

Annual Cash Bonus

Our Compensation Committee directly links the amount of the annual cash bonuses we pay to our financial performance for the particular year. Messrs. Cooper and Lousada have elected to participate in the annual free cash flow bonus pool in the Plan, as described below.

Annual Free Cash Flow Bonus Pool

Messrs. Cooper and Lousada have elected to participate in the Plan, which is also a non-qualified deferred compensation plan that allows the participants to defer receipt of all or a portion of their annual bonuses until future dates prescribed by the Plan. Our Compensation Committee adopted the Plan to, among other reasons, reinforce a partnership culture with our executives, by allowing them to participate in our short-term performance (in the form of annual free cash flow bonuses) and long-term performance (in the form of deferred compensation that is indexed to the value of our common stock and with grants of Profits Interests, as described below under "Long-Term Equity Incentives"). We believe it is important for our executives and shareholders to be motivated to work together towards shared financial and operational goals. In addition, our Compensation Committee considered that the Plan offers our executives the opportunity for tax-efficient wealth management creation based on our performance.

For the 2019 fiscal year, Messrs. Cooper and Lousada participated in the Plan with fixed percentages of free cash flow of 2.5% and 1.0%, respectively. The Company's free cash flow for the 2019 fiscal year for the Plan was $283 million. Accordingly, for fiscal year 2019, Messrs. Cooper and Lousada earned free cash flow bonuses under the Plan of $7,075,000 and $2,830,000, respectively. Because he had already deferred his maximum allocation under the Plan prior to the 2019 fiscal year, Mr. Cooper was not entitled to defer any of his free cash flow bonus payable for the 2019 fiscal year and all of it will be paid to him in cash. Mr. Lousada elected to defer 100% of his free cash flow bonus earned from the 2019 fiscal year and, in doing so, to acquire equity interests representing shares of our common stock. The amounts to be paid in cash to Mr. Cooper for his free cash flow bonus under the Plan for the 2019 fiscal year are set forth below under the "Non-Equity Incentive Plan Compensation" column in the Summary Compensation Table.

Discretionary Bonuses

Messrs. Levin and Moot and Ms. Marshall do not participate in the Plan. For the 2019 fiscal year, Mr. Levin had an annual target bonus amount of $850,000 set forth in his employment agreement. For the 2019 fiscal year, Mr. Moot had an annual target bonus amount of $1,750,000 set forth in his employment agreement, to be prorated from his date of hire. For the 2019 fiscal year, Ms. Marshall had an annual target bonus amount of $1,266,667 set forth in her employment agreement. The actual amount of Messrs. Levin's and Moot's and Ms. Marshall's annual bonuses are determined by the Compensation Committee in its sole discretion and may be higher or lower than their target amounts. The amounts of Messrs. Levin's and Moot's and Ms. Marshall's bonuses for fiscal year 2019 are set forth below under the "Bonus" column in the Summary Compensation Table.

For Messrs. Levin and Moot and Ms. Marshall, the Compensation Committee considered the recommendation of the CEO and the Executive Vice President, Human Resources in making its bonus determinations. The bonuses for each of Messrs. Levin and Moot and Ms. Marshall were based on the target bonus set forth in his or her employment agreement, corporate performance and other discretionary factors, including achievement of strategic objectives and other goals. A variety of qualitative and quantitative factors that vary by year and are given different weights in different years depending on facts and circumstances were considered, with no single factor predominant in the overall bonus determination. The factors considered by the Compensation Committee in connection with Messrs. Levin and Moot's and Ms. Marshall's fiscal year 2019 bonuses are discussed in more detail below.

For fiscal year 2019, after considering the factors described above and management's recommendations, the Compensation Committee determined that the bonuses for Messrs. Levin and Moot and Ms. Marshall would be set at amounts equal to $1,034,340, $913,985 and $1,319,487, respectively. This reflected the Compensation Committee's and management's assessment that overall corporate performance and discretionary factors justified payment of such bonus to each of them based on their and the Company's performance during the fiscal year. Specifically, the Compensation Committee set the amount of Mr. Levin's bonus after considering the quality of his individual performance in running the company-wide finance function, and taking into account other qualitative factors including performance in internal and public financial reporting, budgeting and forecasting processes, compliance and

infrastructure, investment and cost-savings initiatives and communicating to investors and other important constituencies. The Compensation Committee set the amounts of Mr. Moot's and Ms. Marshall's bonuses after considering the quality of their individual performance in running their specific business functions as well as the performance of the Company as well as their additional responsibilities during the transition period following the departure of Warner Chappell Music's former Chair and Chief Executive Officer.

Other non-financial factors taken into account by the Compensation Committee in setting these bonus amounts included, among other items, providing strategic leadership and direction for the Company, including corporate governance matters, managing the strategic direction of the Company.

Long-Term Equity Incentives

Warner Music Group Corp. Senior Management Cash Flow Plan

As noted above, Messrs. Cooper and Lousada have elected to participate in the Plan. In addition to providing an annual bonus that is based on a percentage of the Company's free cash flow, as described above, the Plan provides its participants with the opportunity to defer all or a portion of their free cash flow bonuses and receive grants of equity interests, within prescribed limits.

Deferral of Compensation under the Plan

Subject to prescribed limits under the Plan (including on an individualized participant basis), deferred amounts, if any, will be credited to a participant's account as and when a deferred bonus is earned and indexed to the fair market value of a share of our common stock (as determined from time to time by the Compensation Committee), except that the initial value of deferred amounts at the time of deferral was based on our fair market value as of January 1, 2013 for the Plan's initial participants, including Mr. Cooper, and as of the grant date for other participants who joined the Plan at a later date, including Mr. Lousada. The amount deferred in respect of Mr. Lousada's bonus for the 2019 fiscal year is $2,830,000. As noted above, Mr. Cooper was not entitled to defer any of his 2019 free cash flow bonus because he had previously deferred his maximum allocation under the Plan.

Equity Interests under the Plan

Each of our NEOs who elected to participate in the Plan became a member of WMG Management Holdings, LLC ("Management LLC"), a limited liability company formed in connection with the Plan's adoption, and was granted a "profits interest" in Management LLC ("Profits Interests") in amounts equal to 10,000 times the maximum number of shares of our common stock available for issuance to the participants in settlement of his or her deferred accounts (each deferred equity unit is equivalent to 1/10,000 of a share of our common stock). These Profits Interests granted to Messrs. Cooper and Lousada represent an economic entitlement to future appreciation in our common stock above the fair market value on the grant date. In addition, in connection with the increase to the free cash flow percentage allocations of Mr. Cooper, he was granted an additional number of Profits Interests in Management LLC equal to the additional number of deferred equity units that may be granted to him, representing an economic entitlement to future appreciation in our common stock from the date of grant. Terms and conditions of the Plan with respect to the Profits Interests are described below in the narrative accompanying the "Grant of Plan-Based Awards in Fiscal Year 2019" table and under "Potential Payments upon Termination or Change-In-Control."

On January 4, 2019, April 5, 2019 and July 5, 2019, we paid a cash dividend to our stockholders on all the issued and outstanding shares of our common stock. Under the Plan, deferred equity unit holders receive dividend equivalents for cash dividends paid on our common stock.

Tax Deductibility of Compensation and Other Tax Considerations

Where appropriate, and after taking into account various considerations, including that certain incentives, including the Profits Interests under the Plan, may have competing advantages, we structure our executive employment arrangements and compensation programs to allow us to take a tax deduction for the full amount of the compensation we pay to our executives.

We were a privately held company during all of fiscal year 2019. As a result, we were not subject to Section 162(m) of the Internal Revenue Code, which generally places limits on the tax deductibility of executive compensation for publicly held companies unless certain requirements are met.

Benefits

Our NEOs also receive health coverage, life insurance, disability benefits and, generally, other similar benefits in the same manner as our U.S. employees and, in the case of Mr. Lousada and, for a portion of the 2019 fiscal year during his employment in London, U.K. (before he relocated to Los Angeles, California), Mr. Moot, U.K. employees of equivalent status.

Retirement Benefits

We offer a tax-qualified 401(k) plan to our U.S. employees and in November 2010 we adopted a non-qualified deferred compensation plan, which is available to those of our employees whose base salary is at least $200,000 and who are bonus eligible and who are not eligible to participate in the Plan. Both plans are available to the NEOs except for the non-qualified deferred compensation plan if they participate in the Plan. None of our NEOs participated in the non-qualified deferred compensation plan during fiscal year 2019.

In accordance with the terms of the Company's 401(k) plan, the Company matches after one year of service, in cash, 50% of the first 6% of each plan participant's contributions to the plan, up to 3% of eligible pay, with a limit of up to $8,400 in 2019, whichever is less. Employees can contribute up to the maximum IRS pre-tax deferral of $19,000 in 2019 (with a catch up of $6,000 in 2019 in the case of participants age 50 or greater), whichever occurs first. The matching contributions made by the Company are initially subject to vesting, based on continued employment, with 25% scheduled to vest on each of the second through fifth anniversaries of the employee's date of hire.

Additionally, the Company offers a defined contribution pension scheme for U.K. employees, including, in fiscal year 2019, Messrs. Lousada and Moot.

Perquisites

We generally do not provide perquisites to our NEOs, although, in fiscal year 2019, Mr. Lousada and Mr. Moot received a car allowance, Mr. Moot received relocation assistance and Messrs. Lousada and Moot were reimbursed for certain tax preparation costs and received employer contributions with respect to private medical insurance, life assurance and income protection. See the Summary Compensation Table below for a summary of compensation received by our NEOs, including any perquisites received in fiscal year 2019.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Compensation Discussion and Analysis. Based on the review and discussions, the Compensation Committee recommends to the Company's board of directors that the Compensation Discussion and Analysis be included in this Form 10-K.

Members of the Compensation Committee:
Lincoln Benet, Chair
Alex Blavatnik
Len Blavatnik
Thomas H. Lee
Donald A. Wagner

Summary Compensation Table

The following table provides summary information concerning compensation paid or accrued by us to or, on behalf of, our NEOs, for services rendered to us during the specified fiscal year.

Name and Principal Position	Year	Salary ($)	Bonus ($) (1)	Stock Awards ($)	Non-Equity Incentive Plan Compensation ($) (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($) (3)	Total ($)
Stephen Cooper	2019	$ 1,000,000	—	—	$ 7,075,000	—	$ 2,013,264	$ 10,088,264
CEO	2018	$ 1,000,000	—	—	$ 9,325,000	—	$ 24,025,974	$ 34,350,974
	2017	$ 1,000,000	—	—	$ 12,025,000	—	$ 2,181,818	$ 15,206,818
Max Lousada (4)(5)	2019	$ 5,108,000	—	—	—	—	$ 510,330	$ 5,618,330
CEO, Warner Recorded Music	2018	$ 5,180,000	—	—	—	—	$ 1,467,059	$ 6,647,059
Eric Levin	2019	$ 850,000	$ 1,034,340	—	—	—	$ 8,400	$ 1,892,740
Executive Vice President and	2018	$ 750,000	$ 677,907	—	—	—	$ 8,250	$ 1,436,157
Chief Financial Officer	2017	$ 750,000	$ 625,000	—	—	—	$ 8,100	$ 1,383,100
Carianne Marshall (6)	2019	$ 1,132,692	$ 1,319,487	—	—	—	$ 721	$ 2,452,900
Co-Chair and COO,								
Warner Chappell Music								
Guy Moot (6)	2019	$ 829,994	$ 913,985	—	—	—	$ 322,754	$ 2,066,733
Co-Chair and CEO,								
Warner Chappell Music								

(1) Represents discretionary cash bonuses for fiscal year 2019 performance for each of Messrs. Levin and Moot and Ms. Marshall expected to be paid in January 2020, and discretionary cash bonuses for fiscal years 2018 and 2017 to Mr. Levin.

(2) For the 2019 fiscal year, Mr. Cooper's free cash flow bonus under the Plan will be paid entirely in cash because he previously acquired all of his deferred equity unit allocation. All of his 2018 and 2017 free cash flow bonus were also paid in cash.

(3) Fiscal year 2019 includes 401(k) matching contributions of $8,400 for Mr. Levin and defined contribution pension matching contributions of $23,991 (£18,787) for Mr. Lousada and $7,740 (£6,061) for Mr. Moot. Additionally, fiscal year 2019 for Messrs. Cooper and Lousada, includes $2,013,264 and $433,667, respectively, in cash dividends paid to them under the Plan in respect of their then outstanding deferred equity units and Profits Interests. Messrs. Lousada and Moot were reimbursed for certain tax preparation costs and received car allowances as well as employer contributions with respect to private medical insurance, life assurance and income protection. Mr. Moot also received relocation assistance totaling $282,168, including a related tax gross-up of $97,574.

(4) Mr. Lousada became an NEO in fiscal year 2018.

(5) The amounts reported for Mr. Lousada have been converted from British pound sterling to U.S. dollars using a conversion factor of 1.277 and 1.295 for fiscal years 2019 and 2018, respectively.

(6) Ms. Marshall and Mr. Moot became NEOs in fiscal year 2019. Base salary information for Ms. Marshall and Mr. Moot reflects proration resulting from Ms. Marshall's salary changes during fiscal year 2019 and Mr. Moot's commencement of employment during fiscal year 2019.

Grant of Plan-Based Awards in Fiscal Year 2019

No deferred equity units or Profits Interests were granted in fiscal year 2019 to our NEOs.

Under the Plan, the deferred amounts granted to our participating NEOs are credited to a participant's account as and when a deferred bonus is earned based on the fair market value of a share of our common stock as of January 1, 2013. Uncredited deferred equity units are forfeited upon an NEO's termination of employment. Under the Plan, our participating NEOs' Profits Interests vest over time as equivalent amounts of their annual free cash flow bonuses are deferred under the Plan. Unvested Profits Interests are forfeited on any termination of employment. As of September 30, 2019, 136,567.10 and 54,626.84 deferred equity units had been granted to Mr. Cooper and Mr. Lousada, respectively. As of September 30, 2019, all of Mr. Cooper's deferred equity units, including special deferred equity units, had vested, and Mr. Lousada had vested in 24,514.38 of his deferred equity units. Also, each of Messrs. Cooper and Lousada had vested in an equal number of the Profits Interests held by him. In December 2018, 45,535.02 of Mr. Cooper's deferred equity units, including special deferred equity units, settled and ceased to be outstanding. Deferred equity units described in this report reflect an adjustment the Company made during fiscal year 2019 to account for a change to the number of shares of our common stock outstanding.

The deferred amounts reflected in the "Outstanding Equity Awards at 2019 Fiscal Year-End" and "Nonqualified Deferred Compensation" tables below are scheduled to be settled in equal installments as follows: For Mr. Cooper, on the December 2019 and 2020 redemption dates; and for Mr. Lousada, on the December 2023, 2024, and 2025 redemption dates. Deferred accounts will be settled at the participants' election, in shares of our common stock or with a cash payment equal to the then fair market value of the shares. Any shares received on settlement are required to be immediately exchanged for fully-vested equity units ("Acquired LLC Units") in Management LLC. On each scheduled redemption date, a Plan participant may elect to redeem up to one-third of his or her vested Profits Interests (including any Profits Interests eligible for redemption on a prior redemption date that were not then redeemed) for a cash payment equal to their liquidation value. A Plan participant may also elect to redeem his or her Acquired LLC Units for a cash payment equal to the fair market value of their underlying shares of the Company's common stock on each redemption date. In addition to a Plan participant's right to redemption of his or her vested Profits Interests and Acquired LLC Units on the redemption dates and annually thereafter, Management LLC may redeem vested Profits Interests and Acquired LLC Units following a participant's termination of employment with the Company and its subsidiaries. All remaining Profits Interests will be redeemed in December 2020 for Mr. Cooper and December 2025 for Mr. Lousada. Redemption payments in respect of Profits Interests may be reduced by the amount of any outstanding unrecovered added investment amounts.

As a condition to the grant of Profits Interests to our NEOs who elected to participate in the Plan, each of them agreed to restrictive covenants in the LLC Agreement, including non-competition with the businesses of the Company and its subsidiaries during the participant's term of employment, non-solicitation of certain artists, labels and employees during the participant's term of employment and for one year afterwards, as well as obligations of non-disparagement and confidentiality.

Summary of NEO Employment Arrangements

This section describes employment arrangements in effect for our NEOs during fiscal year 2019. Potential payments under the severance agreements and arrangements described below are provided in the section entitled "Potential Payments upon Termination or Change-In-Control." In addition, for a summary of the meanings of "cause" and "good reason" as discussed below, see "Termination for 'Cause'" and "Resignation for 'Good Reason' or without 'Good Reason'" below.

Employment Arrangements with Stephen Cooper

As noted above, except for Mr. Cooper's annual base salary of $1,000,000 and his participation in the Plan, the Company does not have any other employment arrangement with Mr. Cooper.

Employment Agreement with Max Lousada

During fiscal year 2019, Mr. Lousada was party to an employment agreement with us that provided, among other things, for the following:

(1) the term of Mr. Lousada's employment agreement ends on September 30, 2022;

(2) Mr. Lousada's base salary for fiscal year 2019 was $5,108,000 (£4,000,000);

(3) eligibility to participate in the Plan; and

(4) eligibility to participate in the defined contribution pension plan for UK employees, along with company matching contributions of up to 10% of Mr. Lousada's base salary.

In the event we terminate his employment for any reason other than "cause" (as defined in his employment agreement) or he is constructively dismissed, Mr. Lousada will be entitled to cash severance benefits equal to $7,662,000 (£6,000,000).

Mr. Lousada's employment agreement also contains covenants relating to confidentiality, a six-month post-employment non-compete and a one-year post-employment non-solicitation covenant.

Employment Agreement with Eric Levin

During fiscal year 2019, Mr. Levin was party to an employment agreement with us that provided, among other things, for the following:

(1) the term of Mr. Levin's employment agreement ends on September 30, 2023; and

(2) Mr. Levin's base salary for fiscal year 2019 was $850,000 and his target bonus was $850,000. Additionally, Mr. Levin's base salary and target bonus will continue to be $850,000 for fiscal years 2020 and 2021, and will increase to $900,000 for fiscal years 2022 and 2023.

Also, his employment agreement provides that, if during the term, we establish a new long-term incentive plan, we will consider offering Mr. Levin an opportunity to participate in it.

In the event we terminate his employment for any reason other than for "cause" (as defined in his employment agreement), Mr. Levin will be entitled to cash severance benefits equal to the annual base salary payable to him under his employment agreement, except that if we elect to not renew his employment agreement at the end of its term, he will be paid $600,000.

Mr. Levin's employment agreement also contains standard covenants relating to confidentiality and a one-year post-employment non-solicitation covenant.

Employment Agreement with Carianne Marshall

For fiscal year 2019, Ms. Marshall was party to an employment agreement with us that provided, among other things, for the following:

(1) the term of Ms. Marshall's employment agreement ends on March 31, 2024; and

(2) Ms. Marshall's base salary for fiscal year 2019 was increased to $1,250,000 on February 1, 2019 (after an earlier increase to $1,000,000 on November 1, 2018), and her target bonus was $1,266,667. Ms. Marshall's target bonus for each fiscal year after 2019 will be $1,750,000.

Also, her employment agreement provides that, if during the term, we establish a new long-term incentive plan, we will offer Ms. Marshall an opportunity to participate in it.

In the event we terminate her employment for any reason other than for "cause" (as defined in her employment agreement), death or disability or if Ms. Marshall terminates her employment for "good reason" (as defined in her employment agreement), Ms. Marshall will be entitled to severance benefits equal to 15 months of her annual base salary plus a discretionary pro-rated bonus (as determined by the Company in good faith) and continued participation in the Company's group health and life insurance plans for the month of termination. However, if we elect to not renew her employment agreement at the end of its term, she will be paid the severance that would be payable to her under our severance policy if she did not have an employment agreement.

Ms. Marshall's employment agreement also contains standard covenants relating to confidentiality and a one-year post-employment non-solicitation covenant.

Employment Agreement with Guy Moot

For fiscal year 2019, Mr. Moot was party to employment agreements with us that provided, among other things, for the following:

(1) the term of Mr. Moot's employment agreement ends on March 31, 2024;

(2) Mr. Moot's annual base salary is $1,750,000 (although prior to his relocation to Los Angeles, California in fiscal year 2019, his annual base salary was denominated as £1,365,000), and his target bonus is the same amount;

(3) Mr. Moot was entitled to up to $298,818 (£234,000), after-tax, in relocation assistance in connection with his relocation to Los Angeles, California.

Also, his employment agreement provides that, if during the term, we establish a new long-term incentive plan, we will offer Mr. Moot an opportunity to participate in it.

In the event we terminate his employment for any reason other than for "cause" (as defined in his employment agreement), death or disability or if Mr. Moot terminates his employment for "good reason" (as defined in his employment agreement), Mr. Moot will be entitled to severance benefits equal to 18 months of his annual base salary plus a discretionary prorated bonus (as determined by the Company in good faith), up to $75,000 in relocation assistance to move from Los Angeles, California to London, U.K. and continued participation in the Company's group health and life insurance plans for the month of termination. However, if we elect to not renew his employment agreement at the end of its term, he will be paid 12 months of annual base salary.

If Mr. Moot resigns without "good reason" or is terminated for "cause" before the second anniversary of his relocation to Los Angeles, California, he will be required to repay all or a portion of the relocation assistance and related tax gross-up.

Mr. Moot's employment agreement also contains standard covenants relating to confidentiality and a one-year post-employment non-solicitation covenant.

Outstanding Equity Awards at 2019 Fiscal Year-End

Name	Number of Shares or Units of Stock That Have Not Vested (#) (1)		Market Value of Shares or Units of Stock That Have Not Vested ($) (4)
Stephen Cooper	—(2)	$	—
	—(3)	$	—
Max Lousada	30,112.47(2)	$	11,080,184
	30,112.47(3)	$	6,498,271

(1) An NEO's deferred equity units and Profits Interests generally vest over time as equivalent amounts of annual free cash flow bonuses are deferred under the Plan. All of Mr. Cooper's deferred equity units, including special deferred equity units, and Profits Interests had vested as of September 30, 2019.

(2) Uncredited deferred equity units approved for grant to the NEO as of September 30, 2019. Each deferred equity unit is equivalent to 1/10,000 of a share of our common stock.

(3) Unvested Profits Interests. This table does not include vested Profits Interests that were held by the NEOs or Class A units of Management LLC received in settlement of vested deferred equity units held in trust by Mr. Cooper, in each case, as of September 30, 2019: for Mr. Cooper, 136,567.10 vested Profits Interests, with a value of $34,105,592; and for Mr. Lousada, 24,514.38 vested Profits Interests, with a value of $5,290,203. A Profits Interest's benchmark amount reflects the value of 1/10,000 of our common stock on the grant date of the Profits Interest, and the value of a Profits Interest reflects the appreciation in the fair market value of our common stock above its benchmark amount. For the 2019 redemption date, Mr. Cooper received shares of the Company's common stock for his deferred equity units that settled in December 2018 (and all such shares were immediately contributed to Management LLC in exchange for Class A units, pursuant to the Plan) and Mr. Cooper elected to retain (and not redeem) all of his Profits Interests then eligible for redemption. Because Mr. Lousada joined the Plan in 2017, he was not eligible to redeem any deferred equity units or Profits Interests in December 2018.

(4) As of September 30, 2019, the value of 1/10,000 of a share of our common stock, as determined under the Plan, was $367.96. Assumptions used in the calculation of this amount are included in Note 11 to our audited financial statements for the fiscal year ended September 30, 2019.

Equity Awards Vested in 2019 Fiscal Year

Name	Number of Shares or Units of Stock Acquired on Vesting (#)		Value Realized on Vesting ($) (3)
Stephen Cooper	—(1)	$	—
	—(2)	$	—
Max Lousada	9,788.40(1)	$	1,488,424
	9,788.40(2)	$	1,488,424

(1) Deferred equity units that vested in fiscal year 2019. Generally, an NEO's deferred equity units vest in the fiscal year following the fiscal year in which the NEO's free cash flow bonuses are paid. However, in August 2018, prior to the 2019

fiscal year, vesting was accelerated for 14,725.98 of Mr. Lousada's deferred equity units that would otherwise have vested in fiscal year 2019 and the remaining 9,788.40 vested in December 2018.

(2) Profits Interests that vested in fiscal year 2019 reflect a number of Profits Interests equal to the number of deferred equity units acquired by Mr. Lousada in fiscal year 2019.

(3) Reflects the difference between the purchase price of a deferred equity unit and the fair market value of a deferred equity unit on the date Mr. Lousada acquired the vested deferred equity units in December 2018, and for a Profits Interest reflects the appreciation in the fair market value of one-ten-thousandth (1/10,000) of a share of our common stock as of the vesting date since the date of grant. Pursuant to the Plan and the NEOs' elections, the deferred equity units and Profits Interests will not be settled or redeemed until the scheduled redemption dates or, if earlier, termination of the NEO's employment. See the descriptions in the narratives accompanying the "Grants of Plan-Based Awards in Fiscal Year 2019" table above and below under "Potential Payments upon Termination or Change-In-Control."

Nonqualified Deferred Compensation

The following table provides information concerning the deferred accounts of our NEOs under the Plan:

Name	Executive Contributions in Last FY ($) (1)	Registrant Contributions in Last FY ($) (2)	Aggregate Earnings in Last FY ($) (3)	Aggregate Withdrawals / Distributions ($)	Aggregate Balance at Last FYE ($) (4)
Stephen Cooper	$ —	$ —	$ 5,802,385	$ 13,582,814	$ 32,960,714
Max Lousada	$ 1,490,000	$ 1,488,424	$ 1,562,547	—	$ 9,020,311

(1) Amounts of free cash flow bonuses that were deferred by Mr. Lousada under the Plan through the acquisition of vested deferred equity units in fiscal year 2019.

(2) Reflects the difference between the purchase price of a deferred equity unit and the fair market value of a deferred equity unit on the date Mr. Lousada acquired the vested deferred equity units in fiscal year 2019.

(3) Reflects the increase in value of vested deferred equity units outstanding as of September 30, 2019 since October 1, 2018.

(4) For Mr. Cooper, this reflects the value of shares of the Company's common stock that he received in settlement of his deferred equity units in December 2019.

Potential Payments upon Termination or Change-In-Control

We have entered into employment arrangements that, by their terms, will require us to provide compensation and other benefits to our NEOs if their employment terminates or they resign under specified circumstances. In addition, the Plan provides for certain payments upon a participant's termination of employment or a change-in-control of the Company.

The following discussion summarizes the potential payments upon a termination of employment in various circumstances. The amounts discussed apply the assumptions that employment terminated on September 30, 2019 and the NEO does not become employed by a new employer or return to work for the Company, or that a change in control occurred on September 30, 2019. The discussion that follows addresses Ms. Marshall and Messrs. Lousada, Cooper, Levin and Moot. See "Summary of NEO Employment Arrangements" above for a description of their respective agreements. The value of a fractional share of our common stock applied to this discussion was $367.96, as determined under the Plan as of September 30, 2019.

Estimated Benefits upon Termination for "Cause" or Resignation Without "Good Reason"

In the event an NEO is terminated for "cause," or resigns without "good reason" as such terms are defined below, the NEO is only eligible to receive compensation and benefits accrued through the date of termination. Therefore, no amounts other than accrued amounts would be payable to Ms. Marshall or Messrs. Lousada, Levin and Moot in this instance pursuant to their employment arrangements. As noted above, Mr. Cooper does not have an employment arrangement directly with the Company and, therefore, he is also not entitled to any benefits from the Company, except under the Plan, if he is terminated for "cause" or he resigns without "good reason."

Estimated Benefits upon Termination without "Cause" or Resignation for "Good Reason"

Upon termination without "cause" or resignation for "good reason," Ms. Marshall and Messrs. Lousada, Levin and Moot are entitled to contractual severance benefits payable on termination plus, in the case of Ms. Marshall and Mr. Moot, a pro-rated annual bonus for the year of termination. Although annual free cash flow bonuses under the Plan are generally contingent upon the participant being employed with the Company on the date of payment, if, after the first quarter of a fiscal year, the employment of Messrs. Cooper or Lousada is terminated by the Company without "cause", by him for "good reason" or due to his death or "disability," he will be entitled under the Plan to a pro rata free cash flow bonus in respect of the year in which such event occurs (as such terms are

defined in the Plan). None of our NEOs is entitled to any additional severance upon a termination in connection with a change in control.

Name	Salary (other than accrued amounts) (1)	Bonus (2)	Value of Deferred Compensation (3)	Acceleration of Profits Interests (4)	Benefits	Total
Stephen Cooper	—	$ 7,075,000	$ 32,960,714	—	—	$ 40,035,714
Eric Levin	$ 850,000	—	—	—	—	$ 850,000
Max Lousada (5)	$ 7,662,000	$ 2,830,000	$ 9,020,311	—	—	$ 19,512,311
Carianne Marshall	$ 1,562,500	$ 1,319,487	—	—	—	$ 2,881,987
Guy Moot	$ 2,625,000	$ 913,985	—	—	—	$ 3,538,985

(1) For Messrs. Levin, Moot and Lousada and Ms. Marshall, the amount represents the severance payable to them on such a qualifying termination.
(2) For Messrs. Cooper and Lousada, represents a pro rata amount of the annual free cash flow bonus payable under the Plan (or, since the termination date is assumed to be September 30, 2019, their full 2019 annual bonuses). For Ms. Marshall and Mr. Moot, represents the actual 2019 bonus paid assuming the Company in its good-faith discretion determined to pay that amount.
(3) Reflects the value of vested deferred equity units that will be settled on a termination of employment without “cause” or by the NEO for “good reason” (including, in Mr. Cooper’s case, units held in trust).
(4) Profits Interests will not accelerate on a termination of employment that is not in connection with a change in control of the Company. This table does not include vested Profits Interests held by the NEOs (or, in Mr. Cooper’s case, Profits Interests held in trust).
(5) The amounts reported for Mr. Lousada have been converted from British pound sterling to U.S. dollars using a conversion factor of 1.277.

Estimated Benefits in Connection with a Change in Control

As participants in the Plan, each of Messrs. Lousada and Cooper will be entitled to additional payments upon a change in control in respect of his amounts deferred under the Plan and the Profits Interests granted to him.

Name	Value of Deferred Compensation (1)	Acceleration of Profits Interests (2)	Total
Stephen Cooper	$ 32,960,714	$ —	$ 32,960,714
Max Lousada	$ 9,020,311	$ 2,830,000	$ 11,850,311

(1) For each of Messrs. Cooper and Lousada, represents the value of the NEO’s deferred equity units that were vested and outstanding on September 30, 2019 and for Mr. Cooper, the then outstanding portion of the additional deferred equity units granted to him in December 2013 to offset the impact of the $54 million of investments that were funded through fiscal year 2013 free cash flow (but reduced for the amount of any unrecovered investment amounts that were allocated to the NEO with such additional grant). Also, for Mr. Lousada, the deferred equity units that would have been credited to his deferred compensation account with a pro rata portion of the free cash flow bonus in respect of the 2019 fiscal year payable in deferred equity units (i.e., the remainder due to be deferred from his 2019 fiscal year free cash flow bonus, since the change in control would be deemed to occur on September 30, 2019).
(2) For Mr. Lousada, his Profits Interests that would have vested if 100% of his 2019 free cash flow bonus would have been deferred under the Plan. The value of a Profits Interest reflects the appreciation in the fair market value of one-ten-thousandth (1/10,000) of a share of our common stock as of September 30, 2019 since the date of grant. In each case, the value of a Profits Interest assumes that Management LLC was liquidated and its proceeds distributed to its members, including our NEOs. This table does not include vested Profits Interests held by the NEOs or Profits Interests or Class A units in Management LLC held in trust by Mr. Cooper.

Upon a change of control of the Company and upon certain sales of shares of our common stock underlying Profits Interests and Acquired LLC Units, distributions will be made in respect of Profits Interests (to the extent of their liquidation value) and Acquired LLC Units. The LLC Agreement associated with the Plan provides Access with the right to cause Plan participants (including the NEOs) to sell their Profits Interests, Acquired LLC Units or the underlying shares of our common stock on a sale by Access of more than 50% of the outstanding shares of our common stock to third parties (i.e., a “drag-along right”), other than in a public offering of our common stock. Also, the LLC Agreement provides Plan participants (including the NEOs) with the right to sell their vested Profits Interests and Acquired LLC Units in the event that Access proposes to sell to third parties or us shares of our common stock other than certain sales after a public offering of our common stock (i.e., a “tag-along right”).

Estimated Benefits upon Death or Disability

Death. For Messrs. Lousada, Levin and Moot and Ms. Marshall, other than accrued benefits and, in the case of Messrs. Cooper and Lousada under the Plan, no other benefits are provided in connection with such NEO's death. Also, for Ms. Marshall and Mr. Moot, represents the actual 2019 bonus paid assuming the Company in its good-faith discretion determined to pay that amount.

Disability. For Messrs. Lousada, Levin and Moot and Ms. Marshall, other than accrued benefits and short-term disability amounts and, in the case of Messrs. Cooper and Lousada under the Plan, no benefits are provided in connection with such NEO's disability. Also, for Ms. Marshall and Mr. Moot, represents the actual 2019 bonus paid assuming the Company in its good-faith discretion determined to pay that amount.

As participants in the Plan, each of Messrs. Cooper and Lousada will be entitled to the following payments if terminated as a result of death or disability:

Name	Bonus (1)	Value of Deferred Compensation (2)	Acceleration of Profits Interests (3)	Total
Stephen Cooper	$ 7,075,000	$ 32,960,714	—	$ 40,035,714
Max Lousada	$ 2,830,000	$ 9,020,311	—	$ 11,850,311
Carianne Marshall	$ 1,319,487	—	—	$ 1,319,487
Guy Moot	$ 913,985	—	—	$ 913,985

(1) Represents a pro rata amount of the annual free cash flow bonus payable under the Plan (or, since the termination date is assumed to be September 30, 2019, the full 2019 annual bonus) for each of Messrs. Cooper and Lousada. For Ms. Marshall and Mr. Moot, represents the actual 2019 bonus paid assuming the Company in its good-faith discretion determined to pay that amount.

(2) Represents the value of each NEOs' deferred equity units that were vested and outstanding on September 30, 2019, and the then outstanding portion of the additional deferred equity units granted to Mr. Cooper in December 2013 to offset the impact of the $54 million of investments that were funded through fiscal year 2013 free cash flow (but reduced for the amount of any unrecovered investment amounts that were allocated to the NEO with such additional grant), in each case, based on the value of our common stock as of September 30, 2019.

(3) Profits Interests will not accelerate on a termination of employment that is not in connection with a change in control of the Company. This table does not include vested Profits Interests held by the NEOs or Profits Interests or Class A units in Management LLC held in trust by Mr. Cooper.

Relevant Provisions of Employment Arrangements

Upon termination of employment for any reason, all of our employees, including our NEOs, are entitled to unpaid salary and vacation time accrued through the termination date.

Termination for "Cause"

Under the terms of his employment agreement (and for purposes of the Plan), we generally would have "cause" to terminate the employment of Mr. Lousada in any of the following circumstances: (1) serious or repeated breach of any of his material obligations; (2) refusing to carry out any lawful and reasonable order given to him or failing to attend to his duties; (3) committing any financially dishonest or fraudulent act relating to the Company; (4) conviction of a crime that is punishable by imprisonment; (5) guilty of gross misconduct or of any other conduct which brings or is likely to bring serious professional discredit to the Company; (6) unable to perform his duties by reason of ill-health or accident either for a specified period; (7) becoming of unsound mind and a patient for the purpose of any statute relating to mental health; (8) a petition or application for an order in bankruptcy is presented by or against him or any person becomes entitled to petition or apply for any such order; (9) a disqualification order (as defined in Section 1 of the Directors Disqualification Act 1986) is made against him or he otherwise becomes prohibited by law from being a member of the Company's board of directors; and (10) if he voluntarily resigns as a member of the Company's board of directors. In the event of (1) or (2) that is curable, we are required to notify Mr. Lousada of such circumstances and give him a reasonable opportunity to cure.

For purposes of the Plan, we would have "cause" to terminate the employment of Mr. Cooper in any of the following circumstances: (1) ceasing to perform his material duties to the Company or its affiliates (other than as a result of vacation, approved leave or incapacity due to physical or mental illness or injury), which failure amounts to an extended neglect of his duties, (2) engaging in conduct that is demonstrably and materially injurious to the business of the Company or its affiliates, (3) conviction of a felony or entered a plea of guilty or no contest to a felony charge or a misdemeanor involving as a material element fraud, dishonest

or sale or possession of illicit substances, (4) failing to follow lawful instructions of his direct superiors or the Company's board of directors and (5) breach of any restrictive covenant addressed in his employee letter.

Under the terms of their employment agreements, we generally would have "cause" to terminate the employment of Messrs. Levin or Moot or Ms. Marshall in any of the following circumstances: (1) repeated and continual refusal to perform his or her duties with the Company, (2) engaging in willful malfeasance that has a material adverse effect on the Company, (3) breach of his or her covenants in his/her employment agreement and (4) conviction of a felony or entered a plea of nolo contendere to a felony charge.

Resignation for "Good Reason" or without "Good Reason"

For purposes of the Plan, Messrs. Cooper or Lousada generally would have "good reason" to terminate employment in any of the following circumstances: (1) if his salary or annual bonus percentage under the Plan is materially reduced, (2) if we fail to pay him any salary which has become payable and due to him or (3) our failure to pay him any entitlement that that has become payable and due under the Plan. Messrs. Cooper and Lousada are required to notify us within 30 days after becoming aware of the occurrence of any event that constitutes "good reason," and in general we have 30 days to cure the event, but failing a cure, he must terminate his employment within 30 days after the cure period expires.

Our employment agreements with Mr. Moot and Ms. Marshall provide that he or she generally would have "good reason" to terminate employment in any of the following circumstances: (1) if we assign duties inconsistent with his/her current positions, duties or responsibilities or if we change the parties to whom he or she reports, (2) if we fail to pay any amounts due under the employment agreement, (3) if we relocate him/her beyond a specified area, (4) if we assign the Company's obligations under the employment agreement to a non-affiliate (except, in Ms. Marshall's case, if the assignment is in connection with a sale, transfer or disposition of all or a substantial portion of the stock or assets of Warner Chappell Music, Inc. or its direct or indirect parent). Our employment agreement with Mr. Levin does not include "good reason" termination provisions.

Restrictive Covenants

Our agreements with our NEOs contain several important restrictive covenants with which an executive must comply following termination of employment. For example, Messrs. Cooper's and Lousada's entitlements to payments under the Plan are each conditioned on the NEO's compliance with covenants not to solicit certain of our artists and employees. This non-solicitation covenant continues in effect during a period that, for each of our NEOs, will end one year following his termination of employment.

Messrs. Levin's and Moot's and Ms. Marshall's employment agreements and the Plan for Messrs. Cooper and Lousada also contain covenants regarding non-disclosure of confidential information.

DIRECTOR COMPENSATION

The following table provides summary information concerning compensation paid or accrued by, or on behalf of, our non-employee directors for services rendered to us during fiscal year 2019.

Mr. Lynton is entitled to an annual retainer of $350,000, payable pro rata quarterly in arrears, for his service on the Company's board of directors, and he was paid a prorated portion of this retainer from the date of his appointment to the Company's board of directors on February 7, 2019. Mathias Döpfner is entitled to an annual retainer of €250,000, payable pro rata quarterly in arrears, for his service as a director on the Company's board of directors. Messrs. Lee and Kreiz and Ms. Hertz were entitled to $75,000 for fiscal year 2019. No other non-employee directors received any compensation for service on the Company's board of directors or board committees during fiscal year 2019.

Directors are entitled to reimbursement of their fees incurred in connection with travel to meetings. In addition, the Company reimburses directors for fees paid to attend director education events.

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($)	Non-Equity Incentive Plan Compensation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings	All Other Compensation ($)	Total ($)
Michael Lynton	$ 226,528	—	—	—	—	—	$ 226,528
Lincoln Benet	—	—	—	—	—	—	—
Alex Blavatnik	—	—	—	—	—	—	—
Len Blavatnik	—	—	—	—	—	—	—
Mathias Döpfner	$ 282,150(1)	—	—	—	—	—	$ 282,150
Noreena Hertz	$ 75,000	—	—	—	—	—	$ 75,000
Ynon Kreiz	$ 75,000	—	—	—	—	—	$ 75,000
Thomas H. Lee	$ 75,000	—	—	—	—	—	$ 75,000
Donald A. Wagner	—	—	—	—	—	—	—

(1) The amount reported for Mr. Döpfner has been converted from Euros to U.S. dollars using a conversion factor of 1.1286 as of September 30, 2019.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

Mr. Wagner was a Vice President of the Company from July 20, 2011 to October 3, 2011. None of the Compensation Committee's members is or has been a Company officer or employee during the last fiscal year. During fiscal year 2019, none of the Company's executive officers served on the board of directors, the Compensation Committee or any similar committee of another entity of which an executive officer served on our board of directors or Compensation Committee.

CEO PAY RATIO

As required by Section 953(b) of the Dodd-Frank Wall Street Reform and Consumer Protection Act, and Item 402(u) of Regulation S-K, we are providing the following information about the relationship of the annual total compensation of our employees and the annual total compensation of our CEO:

To determine the estimated ratio of CEO pay to median employee pay in accordance with Item 402(u) of Regulation S-K, we considered our entire global employee population of approximately 5,400 employees who were on the payroll as of September 30, 2019. We then used base salary paid during fiscal year 2019 as the form of compensation to determine our median employee. We identified our median employee, whose Summary Compensation Table total compensation, as calculated in accordance with Item 402(u)(2) of Regulation S-K, was $58,163 in fiscal year 2019 (this amount has been converted from Hong Kong dollars to U.S. dollars using a conversion factor of 0.1276).

The CEO pay used for purposes of calculating this pay ratio is $10,088,264, which is the annual total compensation of our CEO as reported in the Summary Compensation Table.

As a result, the reasonable estimated ratio of CEO pay to median employee pay, calculated in a manner consistent with Item 402(u) of Regulation S-K is 173.4 to 1. The SEC's pay ratio disclosure rules permit the use of estimates, assumptions, and

adjustments. As such, the pay ratio reported by other companies may not be comparable to the pay ratio reported above. This pay ratio results from two important factors relating to our CEO's compensation and participation in the Plan:

- As described above under "Annual Free Cash Flow Bonus Pool," a significant portion of our CEO's annual compensation comes from his free cash flow bonus under the Plan, which for fiscal year 2019 was $7,075,000;
- As described above, we paid cash dividends to all stockholders of record and participants of the Plan on January 4, 2019, April 5, 2019 and July 5, 2019. As a result, our CEO was paid $2,013,264 in fiscal year 2019 in respect of his deferred equity units and Profits Interests;
- As described above, in December 2018, a portion of Mr. Cooper's deferred equity units and special deferred equity units were settled into shares of our common stock (which were immediately contributed to Management LLC for Class A units of Management LLC).

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Affiliates of Access own 100% of our common stock.

The following table provides information as of November 27, 2019 with respect to beneficial ownership of our capital stock by:

- each shareholder of the Company who beneficially owns more than 5% of the outstanding capital stock of the Company;
- each director of the Company;
- each of the executive officers of the Company named in the Summary Compensation Table appearing under “Executive Compensation”; and
- all executive officers of the Company and directors of the Company as a group.

The amounts and percentages of shares beneficially owned are reported on the basis of regulations of the SEC governing the determination of beneficial ownership of securities. Under SEC rules, a person is deemed to be a “beneficial owner” of a security if that person has or shares voting power or investment power, which includes the power to dispose of or to direct the disposition of such security. A person is also deemed to be a beneficial owner of any securities of which that person has a right to acquire beneficial ownership within 60 days. Securities that can be so acquired are deemed to be outstanding for purposes of computing such person’s ownership percentage, but not for purposes of computing any other person’s percentage. Under these rules, more than one person may be deemed to be a beneficial owner of the same securities and a person may be deemed to be a beneficial owner of securities as to which such person has no economic interest.

Except as otherwise indicated in these footnotes, each of the beneficial owners listed has, to our knowledge, sole voting and investment power with respect to the indicated shares of common stock.

Name and Address of Beneficial Owner (1)	Title of Class (2)	Amount and Nature of Beneficial Ownership	Percent of Class Outstanding
AI Entertainment Holdings LLC (formerly Airplanes Music LLC)	Common Stock	995.8	94.0%
Altep 2012 L.P.	Common Stock	4.2	0.4%
WMG Management Holdings, LLC	Common Stock	59.9012	5.6%
Stephen Cooper (3)	N/A	N/A	N/A
Eric Levin	N/A	N/A	N/A
Max Lousada (3)	N/A	N/A	N/A
Carianne Marshall	N/A	N/A	N/A
Guy Moot	N/A	N/A	N/A
Michael Lynton	N/A	N/A	N/A
Len Blavatnik (2)	Common Stock	1,059.9012	100%
Lincoln Benet (3)	N/A	N/A	N/A
Alex Blavatnik	N/A	N/A	N/A
Mathias Döpfner	N/A	N/A	N/A
Noreena Hertz	N/A	N/A	N/A
Ynon Kreiz	N/A	N/A	N/A
Thomas H. Lee	N/A	N/A	N/A
Donald A. Wagner (3)	N/A	N/A	N/A
All executive officers and directors of Warner Music Group Corp. as a group (18 persons)	Common Stock	1,059.9012	100%

(1) The mailing address of each of these persons is c/o Warner Music Group Corp., 1633 Broadway, New York, NY 10019, (212) 275-2000.
(2) As of November 27, 2019, the Company, AI Entertainment Holdings LLC (formerly Airplanes Music LLC), Altep 2012 L.P. and WMG Management Holdings, LLC are indirectly controlled by Len Blavatnik.
(3) Does not reflect shares of the Company’s common stock that may be attributable to the beneficial owners of limited partnership interests in Altep 2012 L.P. or Profits Interests in WMG Management Holdings, LLC. Messrs. Benet and Wagner

beneficially own limited partnership interests in Altep 2012 L.P. and disclaim any beneficial ownership of shares of the Company's common stock. Messrs. Cooper, and Mr. Lousada owns Profits Interests, and Mr. Cooper holds Profits Interests and Class A units (held in trust), in WMG Management Holdings, LLC and disclaim any beneficial ownership of shares of the Company's common stock.

ITEM 13. CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Oversight of Related Person Transactions

Policies and Procedures Dealing with the Review, Approval and Ratification of Related Person Transactions

The Company maintains written procedures for the review, approval and ratification of transactions with related persons. The procedures cover related party transactions between the Company and any of our executive officers and directors. More specifically, the procedures cover: (1) any transaction or arrangement in which the Company is a party and in which a related party has a direct or indirect personal or financial interest and (2) any transaction or arrangement using the services of a related party to provide legal, accounting, financial, consulting or other similar services to the Company.

The Company's policy generally groups transactions with related persons into two categories: (1) transactions requiring the approval of the Audit Committee and (2) certain ordinary course transactions below established financial thresholds that are deemed pre-approved by the Audit Committee. The Audit Committee is deemed to have pre-approved any transaction or series of related transactions between us and an entity for which a related person is an employee (other than an executive officer), director or beneficial owner of less than 10% of that entity's voting capital where the aggregate amount of all such transactions on an annual basis does not exceed the lesser of (a) $1 million and (b) 2% of the annual consolidated gross revenues of the other entity. Regardless of whether a transaction is deemed pre-approved, all transactions in any amount are required to be reported to the Audit Committee.

Subsequent to the adoption of the written procedures above in 2005, the Company has followed these procedures regarding all reportable related person transactions. Following is a discussion of related person transactions.

Relationships with Access

As a wholly owned subsidiary of Access, historically, we have entered into various transactions with Access and its subsidiaries in the normal course of business including, among others, service agreements, lease arrangements and license arrangements. The transactions described below are between us and affiliates of Access that are not also subsidiaries of Warner Music Group Corp.

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 provides the Company and its subsidiaries with financial, investment banking, management, advisory and other services. Pursuant to the Management Agreement, the Company pays to Access an annual fee equal to the greater of (i) a base amount, which is the sum of (x) $6 million and (y) 1.5% of the aggregate amount of Acquired EBITDA (as defined in the Management Agreement) and was approximately $9 million for the fiscal year ended September 30, 2019, and (ii) 1.5% of the EBITDA (as defined in the indenture governing the redeemed WMG Holdings Corp. 13.75% Senior Notes due 2019) of the Company for the applicable fiscal year, plus expenses. The fee is paid quarterly based on the base amount, with a true-up payment for the fourth quarter for any excess of the annual fee above the base amount. 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 $11 million, $16 million and $9 million for the fiscal years ended September 30, 2019, September 30, 2018 and September 30, 2017, respectively. The fiscal year ended September 30, 2019 included the annual base fee of $9 million and an increase of $2 million calculated pursuant to the Management Agreement. The fiscal year ended September 30, 2018 included the annual base fee of $9 million and an increase of $7 million calculated pursuant to the Management Agreement.

Lease Arrangements with Access

On March 29, 2019, an affiliate of Access acquired the Ford Factory Building, located on 777 S. Santa Fe Avenue in Los Angeles, California, from an unaffiliated third party. The building is the Company's new Los Angeles, California headquarters and as such, the Company is the sole tenant of the building acquired by Access. The existing lease agreement was assumed by Access upon purchase of the building and was not modified as a result of the purchase. Rental payments by the Company under the existing lease total approximately $12 million per year, subject to annual fixed increases. The remaining lease term is approximately 11 years, after which the Company may exercise a single option to extend the term of the lease for 10 years thereafter.

On August 13, 2015, a subsidiary of the Company, Warner Music Inc., entered into a license agreement with Access for the use of office space in the Company's 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, 2019, 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.

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. Subsequent to the change in ownership, the parties entered into the lease and related agreements pursuant to which, on January 1, 2015, the rent was increased to £3,460,250 per year and the term was extended for an additional five years from December 24, 2020 to December 24, 2025, with a market rate rent review beginning December 25, 2020.

Music Publishing Agreement

Val Blavatnik (the son of our director and controlling shareholder, Len Blavatnik) entered into a music publishing contract with Warner-Tamerlane Publishing Corp., dated September 7, 2018, pursuant to which, in fiscal 2019, he was paid $162,500 in advances recoupable from royalties otherwise payable to him from the licensing of musical compositions written or co-written by him.

License Agreements with Deezer

Access owns a controlling equity interest in Deezer S.A., which was formerly known as Odyssey Music Group (“Odyssey”), a French company that controls and operates a 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. Subsidiaries of the Company have been a party to license arrangements with Deezer since 2008, which provide for the use of the Company’s sound recordings on Deezer’s ad-supported and subscription streaming services worldwide (excluding Japan) in exchange for fees paid by Deezer. The Company has also authorized Deezer to include the Company’s sound recordings 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 the Company. Deezer paid to the Company an aggregate amount of approximately $49 million in connection with the foregoing arrangements during the fiscal year ended September 30, 2019. In addition, in connection with these arrangements, (i) the Company was issued, and currently holds, warrants to purchase shares of Deezer S.A. and (ii) the Company purchased a small number of shares of Deezer S.A., which collectively represent a small minority interest in Deezer S.A. The Company also has various publishing agreements with Deezer. Warner Chappell has licenses with Deezer for use of repertoire on the service in Europe, which the Company refers to as a PEDL license (referencing the Company’s Pan European Digital Licensing initiative), and for territories in Latin America. For the PEDL and Latin American licenses for the fiscal year ended September 30, 2019, Deezer paid the Company an additional approximately $1 million. Deezer also licenses other publishing rights controlled by Warner Chappell through statutory licenses or through various collecting societies.

Investment in Tencent Music Entertainment Group

On October 1, 2018, WMG China LLC (“WMG China”), an affiliate of the Company, entered into a share subscription agreement with Tencent Music Entertainment Group pursuant to which WMG China agreed to purchase 37,162,288 ordinary shares of Tencent Music Entertainment Group for $100 million. WMG China is 80% owned by AI New Holdings 5 LLC, an affiliate of Access, and 20% owned by the Company. On October 3, 2018, WMG China acquired the shares pursuant to the share subscription agreement.

Relationships with Other Directors, Executive Officers and Affiliates

Lease Arrangements with Cooper Investment Partners

On July 15, 2016, a subsidiary of the Company, Warner Music Inc., entered into a license agreement with Cooper Investment Partners LLC, for the use of office space in the Company’s corporate headquarters at 1633 Broadway, New York, New York. The license fee of $16,967.21 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, 2019, an immaterial amount was recorded as rental income. The space is occupied by Cooper Investment Partners LLC, which is a private equity fund that pursues a wide range of investment opportunities. Mr. Cooper, CEO and director of the Company, is the Managing Partner of Cooper Investment Partners LLC.

Loan Agreement with Max Lousada

On April 16, 2018, the Company loaned $227,000 to Mr. Lousada in exchange for a promissory note. Mr. Lousada was obligated to repay this loan upon the earliest of specified events, including April 30, 2019, termination of his employment, the event of a default (as specified therein) or if the Company or one of its affiliates becomes an issuer of publicly traded stock. Mr. Lousada repaid this loan prior to April 30, 2019.

Director Independence

Though not formally considered by the Company's board of directors because, following the Merger, our common stock has not been listed on a national securities exchange, we believe that Messrs. Lynton, Döpfner, Kreiz and Lee and Ms. Hertz would be considered "independent" under the listing standards of the NYSE. We do not believe that any of our other directors would be considered "independent" under the listing standards of the NYSE.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The Audit Committee of the Company's board of directors selected the firm of KPMG LLP, to serve as independent registered public accountants for the fiscal years ending September 30, 2019 and September 30, 2018.

Fees Paid to KPMG LLP

The following table sets forth the aggregate fees incurred to KPMG LLP for services rendered in connection with the consolidated financial statements, and reports for the fiscal years ended September 30, 2019 and September 30, 2018 on behalf of the Company and its subsidiaries, as well as all out-of-pocket costs incurred in connection with these services (in thousands):

	Year Ended September 30, 2019	Year Ended September 30, 2018
Audit Fees	$ 5,302	$ 5,030
Audit-Related Fees	635	613
Tax Fees	206	100
All Other Fees	84	123
Total Fees	$ 6,227	$ 5,866

These fees exclude out-of-pocket costs of approximately $0.25 million for the periods ended September 30, 2019 and September 30, 2018.

Audit Fees: Consists of fees billed for professional services rendered for the audit of the Company's consolidated financial statements, the review of the interim condensed consolidated financial statements included in quarterly reports and services that are normally provided by KPMG LLP in connection with statutory and regulatory filings or engagements and attest services, except those not required by statute or regulation.

Audit-Related Fees: Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements and are not reported under "Audit Fees." These services include employee benefit plan audits, auditing work on proposed transactions and implementation of new accounting standards, attest services that are not required by statute or regulation and consultations concerning financial accounting and reporting standards.

Tax Fees: Consists of work performed in connection with tax advisory services.

All Other Fees: Consists of work performed in connection with the Company's debt transactions.

Pre-approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accountants

The Audit Committee pre-approves all audit and permissible non-audit services provided by KPMG LLP. These services may include audit services, audit-related services, tax services and other services. The Audit Committee has adopted a policy for the pre-approval of services provided by KPMG LLP. Under this policy, pre-approval is generally provided for up to one year and any pre-approval is detailed as to the particular service or category of services and includes an anticipated budget. In addition, the Audit Committee may also pre-approve particular services on a case-by-case basis. The Audit Committee has delegated pre-approval authority to the Chair of the Audit Committee. Pursuant to this delegation, the Chair must report any pre-approval decision to the Audit Committee at its first meeting after the pre-approval was obtained.

During fiscal years 2019 and 2018, all professional services provided by KPMG LLP were pre-approved by the Audit Committee in accordance with our policies.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) Financial Statements

The Financial Statements listed in the Index to Consolidated Financial Statements, filed as part of this Annual Report on Form 10-K.

(a)(2) Financial Statement Schedule

The Financial Statements Schedule listed in the Index to Consolidated Financial Statements, filed as part of this Annual Report on Form 10-K.

- Schedule II—Valuation and Qualifying Accounts

(a)(3) Exhibits

See Item 15(b) below.

(b) Exhibits

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

The agreements filed as exhibits to this Report have been attached as exhibits to provide investors and security holders with information regarding their respective terms. They are not intended to provide any other factual information about the Company or any of its affiliates or businesses. The representations, warranties, covenants and agreements contained in such exhibits were made only for the purposes of such agreement and as of specified dates, were solely for the benefit of the parties to such agreement and may be subject to limitations agreed upon by the contracting parties. The representations and warranties may have been made for the purposes of allocating contractual risk between the parties to such agreements instead of establishing these matters as facts, and may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors. Investors and security holders are not third-party beneficiaries under any of the agreements attached as exhibits hereto and should not rely on the representations, warranties, covenants and agreements or any descriptions thereof as characterizations of the actual state of facts or condition of the Company or any of its affiliates or businesses. Moreover, the assertions embodied in the representations and warranties contained in each such agreement are qualified by information in confidential disclosure letters or schedules that the parties have exchanged. Moreover, information concerning the subject matter of the representations and warranties may change after the respective dates of such agreements, which subsequent information may or may not be fully reflected in the Company's public disclosures.

Exhibit Number	Description
3.1(5)	Third Amended and Restated Certificate of Incorporation of Warner Music Group Corp.
3.2(1)	Third Amended and Restated By-Laws of Warner Music Group Corp.
4.1(6)	Indenture, dated as of November 1, 2012, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto, Credit Suisse AG, as Notes Authorized Agent and as Collateral Agent, and Wells Fargo Bank, National Association, as Trustee, providing for the issuance of secured notes in series (the "Secured Notes").
4.2(14)	Fifth Supplemental Indenture, dated as of July 27, 2016, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 5.000% Senior Secured Notes due 2023.
4.3(15)	Sixth Supplemental Indenture, dated as of October 18, 2016, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 4.875% Senior Secured Notes due 2024.

Exhibit Number	Description
4.4(15)	Seventh Supplemental Indenture, dated as of October 18, 2016, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 4.125% Senior Secured Notes due 2024.
4.5(26)	Eighth Supplemental Indenture, dated as of October 9, 2018, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 3.625% Senior Secured Notes due 2026.
4.6(27)	Ninth Supplemental Indenture, dated as of April 30, 2019, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 3.625% Senior Secured Notes due 2026.
4.7(10)	Indenture, dated as of April 9, 2014, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, providing for the issuance of unsecured senior notes in series (the “Senior Notes”).
4.8(23)	Fifth Supplemental Indenture, dated as of March 14, 2018, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 5.500% Senior Notes due 2026.
4.9	Form of Secured Note of WMG Acquisition Corp. (included in Exhibit 4.1 hereto).
4.10	Form of Senior Note of WMG Acquisition Corp. (included in Exhibit 4.7 hereto).
4.11(14)	Guarantee, dated July 27, 2016, issued by Warner Music Group Corp., relating to the 5.000% Senior Secured Notes due 2023.
4.12(15)	Guarantee, dated October 18, 2016, issued by Warner Music Group Corp., relating to the 4.875% Senior Secured Notes due 2024 and 4.125% Senior Secured Notes due 2024.
4.13(23)	Guarantee, dated March 14, 2018, issued by Warner Music Group Corp., relating to the 5.500% Senior Notes due 2026.
4.14(26)	Guarantee, dated October 9, 2018, issued by Warner Music Group Corp., relating to the 3.625% Senior Secured Notes due 2026.
4.15(27)	Guarantee, dated April 30, 2019, issued by Warner Music Group Corp., relating to the 3.625% Senior Secured Notes due 2026.
4.16(6)	Security Agreement, dated as of November 1, 2012, among WMG Acquisition Corp., WMG Holdings Corp., the guarantors listed on the signature pages thereto and Credit Suisse AG, as collateral agent, term loan authorized representative, revolving authorized representative and indenture authorized representative.
4.17(6)	Copyright Security Agreement, dated November 1, 2012, made by WMG Acquisition Corp. and the guarantors listed on the signature pages thereto in favor of Credit Suisse, AG, as collateral agent for the Secured First Lien Parties.
4.18(6)	Patent Security Agreement, dated November 1, 2012, made by WMG Acquisition Corp. and the guarantors listed on the signature pages thereto in favor of Credit Suisse, AG, as collateral agent for the Secured First Lien Parties.
4.19(6)	Trademark Security Agreement, dated November 1, 2012, made by WMG Acquisition Corp. and the guarantors listed on the signature pages thereto in favor of Credit Suisse, AG, as collateral agent for the Secured First Lien Parties.
10.1(6)	Credit Agreement, dated as of November 1, 2012, among WMG Acquisition Corp., each lender from time to time party thereto, Credit Suisse AG, as administrative agent, Credit Suisse Securities (USA) LLC, Barclays Bank PLC, UBS Securities LLC, Macquarie Capital (USA) Inc. and Nomura Securities International, Inc., as joint bookrunners and joint lead arrangers, and Barclays Bank PLC and UBS Securities LLC, as syndication agents, relating to a term loan credit facility.
10.2(11)	Incremental Commitment Amendment, dated as of May 9, 2013, by and among WMG Acquisition Corp., the other Loan Parties (as defined therein), WMG Holdings Corp., and the several banks and financial institutions parties thereto as Lenders and the Administrative Agent, as defined therein.
10.3(16)	Second Amendment to Credit Agreement, dated as of July 15, 2016, among WMG Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, relating to the term loan facility.
10.4(18)	Second Incremental Commitment Amendment, dated as of November 21, 2016, among WMG Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, relating to the term loan facility.

Exhibit Number	Description
10.5(20)	Third Incremental Commitment Amendment, dated as of May 22, 2017, among WMG Acquisition Corp., the other Loan Parties (as defined therein) party thereto, WMG Holdings Corp., the Administrative Agent (as defined therein) and Credit Suisse AG Cayman Islands Branch, as Tranche D Term Lender.
10.6(22)	Fourth Incremental Commitment Amendment, dated as of December 6, 2017, among WMG Acquisition Corp., the other Loan Parties (as defined therein) party hereto, WMG Holdings Corp., the Administrative Agent (as defined therein) and Credit Suisse AG Cayman Islands Branch, as Tranche E Term Lender.
10.7(23)	Increase Supplement to the Credit Agreement, dated as of March 14, 2018, among WMG Acquisition Corp., the Loan Parties (as defined therein) party thereto, WMG Holdings Corp., Credit Suisse AG, Cayman Islands Branch, as increasing lender, and Credit Suisse AG, as administrative agent, relating to the term loan facility.
10.8(24)	Fifth Incremental Commitment Amendment, dated as of June 7, 2018, among WMG Acquisition Corp., the other Loan Parties (as defined therein) party thereto, WMG Holdings Corp., the Administrative Agent (as defined therein) and Credit Suisse AG Cayman Islands Branch, as Tranche F Term Lender.
10.9(6)	Guarantee Agreement, dated as of November 1, 2012, made by the persons listed on the signature pages thereto under the caption "Subsidiary Guarantors" and the Additional Guarantors in favor of the Secured Parties, relating to the term credit facility.
10.10(22)	Credit Agreement, dated as of January 31, 2018, among WMG Acquisition Corp., the lenders from time to time party thereto, and Credit Suisse AG, as administrative agent, relating to the revolving credit facility.
10.11(22)	Subsidiary Guaranty, dated as of January 31, 2018, made by the persons listed on the signature pages thereto under the caption "Guarantors" and the Additional Guarantors (as defined therein) in favor of the Secured Parties (as defined therein), relating to the revolving credit facility.
10.12$	First Amendment to Credit Agreement, dated as of October 9, 2019, among WMG Acquisition Corp. and Credit Suisse AG, as Administrative Agent, as defined therein, relating to the revolving credit facility.
10.13**(13)	Letter Agreement, dated as of September 30, 2014, between Warner Music Inc. and Eric Levin
10.14**(17)	Letter Agreement, dated as of October 6, 2015, between Warner Music Inc. and Eric Levin
10.15**(18)	Letter Agreement, dated as of December 2, 2016, between Warner Music Inc. and Eric Levin
10.16**(17)	Letter Agreement, dated as of August 4, 2015, between Warner Music Inc. and Paul M. Robinson
10.17**(24)	Letter Agreement, dated May 2, 2018, between Warner Music Inc. and Eric Levin
10.18**(24)	Letter Agreement, dated May 2, 2018, between Warner Music Inc. and Paul M. Robinson
10.19**$	Letter Agreement, dated as of January 8, 2019, between Warner Chappell Music, Inc. and Guy Moot.
10.20**$	Service Agreement, dated as of January 8, 2019, between Warner Chappell Music Limited and Guy Moot.
10.21**$	Letter Agreement, dated as of March 12, 2018, between Warner Chappell Music, Inc. and Carianne Marshall.
10.22**$	Letter Agreement, dated as of November 16, 2018, between Warner Chappell Music, Inc. and Carianne Marshall.
10.23**$	Letter Agreement, dated as of January 8, 2019, between Warner Chappell Music, Inc. and Carianne Marshall.
10.24**(21)	Service Agreement, dated as of March 20, 2017, between Max Lousada and Warner Music International Services Limited
10.25**(4)	Warner Music Group Corp. Deferred Compensation Plan
10.26**(19)	Second Amended and Restated Warner Music Group Corp. Senior Management Free Cash Flow Plan
10.27**(12)	Form of Election for Warner Music Group Corp. Senior Management Free Cash Flow Plan
10.28**(8)	Form of Award Agreement under Warner Music Group Corp. Senior Management Free Cash Flow Plan
10.29**(9)	Form of Award Agreement for 2014 Additional Unit Allocation under Warner Music Group Corp. Senior Management Free Cash Flow Plan.
10.30**(2)	Form of Indemnification Agreement between Warner Music Group Corp. and its directors
10.31**(19)	Second Amended and Restated Limited Liability Company Agreement of WMG Management Holdings, LLC, dated as of March 10, 2017

Exhibit Number	Description
10.32(7)	Lease, dated as of October 1, 2013, between Paramount Group, Inc., as agent for PGREF I 1633 Broadway Tower, L.P., and WMG Acquisition Corp. (the "Headquarters Lease")
10.33(7)	Guaranty of Headquarters Lease, dated as of October 1, 2013
10.34(3)	Assurance of Discontinuance, dated November 22, 2005
10.35(1)	Management Agreement, made as of July 20, 2011, by and among Warner Music Group Corp., WMG Holdings Corp, and Access Industries Inc.
10.36(18)	Lease, dated as of October 7, 2016, between Warner Acquisition Corp. and Sri Ten Santa Fe LLC.
21.1$	List of Subsidiaries of Warner Music Group Corp.
24.1$	Power of Attorney (see signature page)
31.1$	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
31.2$	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
32.1***$	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2***$	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1$	Financial statements from the Annual Report on Form 10-K of Warner Music Group Corp. for the fiscal year ended September 30, 2019, filed on November 27, 2019, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Equity and (vi) Notes to Consolidated Audited Financial Statements

---

$	Filed herewith
*	Exhibit omits certain information that has been filed separately with the Securities and Exchange Commission and has been granted confidential treatment
**	Represents management contract, compensatory plan or arrangement in which directors and/or executive officers are eligible to participate
***	Pursuant to SEC Release No. 33-8212, this certification will be treated as "accompanying" this Annual Report on Form 10-K and not "filed" as part of such report for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of Section 18 of the Securities Exchange Act of 1934, as amended, and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, except to the extent that the registrant specifically incorporates it by reference
(1)	Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on July 26, 2011 (File No. 001-32502)
(2)	Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on May 20, 2011 (File No. 001-32502)
(3)	Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on November 23, 2005 (File No. 001-32502)
(4)	Incorporated by reference to Warner Music Group Corp.'s Registration Statement on Form S-8 filed on November 23, 2010 (File No. 333-170771)
(5)	Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on July 20, 2011 (File No. 001-32502)
(6)	Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on November 7, 2012 (File No. 001-32502)
(7)	Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on October 4, 2013 (File No. 001-32502)
(8)	Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on November 27, 2013 (File No. 001-32502)
(9)	Incorporated by reference to Warner Music Group Corp.'s Quarterly Report on Form 10-Q for the period ended March 31, 2014 (File No. 001-32502)

COEX-
9.19

(10) Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on April 10, 2014 (File No. 001-32502)
(11) Incorporated by reference to Warner Music Group Corp.'s Quarterly Report on Form 10-Q for the period ended March 30, 2013 (File No. 001-32502)
(12) Incorporated by reference to Warner Music Group Corp.'s Annual Report on Form 10-K for the period ended September 30, 2012 (File No. 001-32502)
(13) Incorporated by reference to Warner Music Group Corp.'s Annual Report on Form 10-K for the period ended September 30, 2014 (File No. 001-32502)
(14) Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on July 27, 2016 (file No. 001-32502)
(15) Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on October 18, 2016 (File No. 001-32502)
(16) Incorporated by reference to Warner Music Group Corp.'s Quarterly Report on Form 10-Q for the period ended June 30, 2016 (File No. 001-32502)
(17) Incorporated by reference to Warner Music Group Corp.'s Annual Report on Form 10-K for the period ended September 30, 2015 (File No. 001-32502)
(18) Incorporated by reference to Warner Music Group Corp.'s Annual Report on Form 10-K for the period ended September 30, 2016 (File No. 001-32502)
(19) Incorporated by reference to Warner Music Group Corp.'s Quarterly Report on Form 10-Q for the period ended March 31, 2017 (File No. 001-32502)
(20) Incorporated by reference to Warner Music Group Corp.'s Quarterly Report on Form 10-Q for the period ended June 30, 2017 (File No. 001-32502)
(21) Incorporated by reference to Warner Music Group Corp.'s Annual Report on Form 10-K for the period ended September 30, 2017 (File No. 001-32502)
(22) Incorporated by reference to Warner Music Group Corp.'s Quarterly Report on Form 10-Q for the period ended December 31, 2017 (File No. 001-32502)
(23) Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on March 14, 2018 (File No. 001-32502)
(24) Incorporated by reference to Warner Music Group Corp.'s Quarterly Report on Form 10-Q for the period ended March 31, 2018 (File No. 001-32502)
(25) Incorporated by reference to Warner Music Group Corp.'s Quarterly Report on Form 10-Q for the period ended June 30, 2018 (File No. 001-32502)
(26) Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on October 9, 2018 (File No. 001-32502)
(27) Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed on April 30, 2019 (File No. 001-32502)

ITEM 16. FORM 10-K SUMMARY

Not Applicable

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 27, 2019.

WARNER MUSIC GROUP CORP.

By: /s/ STEPHEN COOPER

Name: **Stephen Cooper**
Title: **Chief Executive Officer**
(Principal Executive Officer)

By: /s/ ERIC LEVIN

Name: **Eric Levin**
Title: **Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)**

COEX-
9.19

POWER OF ATTORNEY

KNOW BY ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints jointly and severally, Paul M. Robinson and Trent N. Tappe, and each of them, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on November 27, 2019.

Signature	Title
/s/ STEPHEN COOPER **Stephen Cooper**	CEO and President and Director (Chief Executive Officer)
/s/ MAX LOUSADA **Max Lousada**	CEO, Warner Recorded Music and Director
/s/ MICHAEL LYNTON **Michael Lynton**	Chairman of the Board of Directors
/s/ LEN BLAVATNIK **Len Blavatnik**	Vice Chairman of the Board of Directors
/s/ LINCOLN BENET **Lincoln Benet**	Director
/s/ ALEX BLAVATNIK **Alex Blavatnik**	Director
/s/ MATHIAS DÖEPFNER **Mathias Döepfner**	Director
/s/ NOREENA HERTZ **Noreena Hertz**	Director
/s/ YNON KREIZ **Ynon Kreiz**	Director
/s/ THOMAS H. LEE **Thomas H. Lee**	Director
/s/ DONALD A. WAGNER **Donald A. Wagner**	Director

Exhibit 10.12

FIRST AMENDMENT

FIRST AMENDMENT TO CREDIT AGREEMENT (this "First Amendment"), dated as of October 9, 2019 among WMG Acquisition Corp. (the "Borrower") and Credit Suisse AG, as Administrative Agent (the "Administrative Agent"). Unless otherwise indicated, all capitalized terms used herein and not otherwise defined shall have the respective meanings provided such terms in the Credit Agreement referred to below (as amended by this First Amendment).

W I T N E S S E T H :

WHEREAS, the Borrower, the Lenders from time to time party thereto and the Administrative Agent are parties to a Credit Agreement, dated as of January 31, 2018 (as amended, restated, amended and restated, waived or otherwise modified prior to the date hereof, the "Existing Credit Agreement" and, as amended hereby, the "Credit Agreement");

WHEREAS, the Borrower has identified an ambiguity, mistake, omission, defect or inconsistency affecting the definition of "Excluded Contribution" in Section 1.01 and the second proviso of Section 7.02(b)(iv), in each case of the Existing Credit Agreement;

WHEREAS, pursuant to Section 10.08(c) of the Existing Credit Agreement, the Administrative Agent and the Borrower have agreed to amend the Existing Credit Agreement to cure such ambiguity, mistake, omission, defect or inconsistency as set forth herein;

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Administrative Agent and the Borrower hereby agree as follows:

SECTION 1 - Credit Agreement Amendments. Subject to the satisfaction of the conditions set forth in Section Two hereof:

(1) The definition of "Excluded Contribution" in Section 1.01 of the Credit Agreement is hereby amended by replacing the words "made and not utilized prior to the Issue Date under, and as defined in, the Senior Unsecured Notes Indenture" with the words "made and not utilized under the Senior Unsecured Notes Indenture prior to the Closing Date" in the last line of such definition; and

(2) The second proviso of Section 7.02(b)(iv) of the Credit Agreement is hereby amended to delete the stricken text and to add the underlined text as set forth in the provision below:

> and provided, further, that such amount in any calendar year may be increased by an amount not to exceed (A) the cash proceeds from the sale of Equity Interests (other than Disqualified Stock) of the Borrower and, to the extent contributed to the Borrower, Equity Interests of any of its direct or indirect parent companies or employee investment vehicles, in each case to any future, present or former employee, director or consultant of the Borrower, any of its Subsidiaries or any of its direct or indirect parent companies that occurs after the Restatement

Date plus (B) the amount of any cash bonuses otherwise payable to any future, present or former employee, director or consultant of the Borrower or any of its Subsidiaries or any of its direct or indirect parent companies that are foregone in return for the receipt of Equity Interests or the Borrower or any direct or indirect parent company of the Borrower or any employee investment vehicle pursuant to deferred compensation plan of such corporation plus (C) the cash proceeds of key man life insurance policies received by the Borrower or its Restricted Subsidiaries after the Restatement Date plus (D) the amount available as of the Restatement Date for making Restricted Payments pursuant to Section 8.2(b)(iv) of the Senior Term Loan Agreement (provided that the Borrower may elect to apply all or any portion of the aggregate increase contemplated by clauses (A), (B), (C) and (D) above in any calendar year) less (E) the amount of any Restricted Payments previously made pursuant to clauses (A), (B), (C) and (D) of this clause (iv);

SECTION 2 - Conditions to Effectiveness of the First Amendment. This First Amendment shall become effective on the date (the "First Amendment Effective Date") when each of the following conditions shall have been satisfied:

(1) The Administrative Agent shall have received counterparts of this First Amendment executed by the Borrower and the Administrative Agent.

(2) The Borrower shall have reimbursed the Administrative Agent for (i) all of its reasonable out-of-pocket costs and expenses incurred in connection with this First Amendment, any other documents prepared in connection herewith and the transactions contemplated hereby, and (ii) the reasonable documented fees, charges and disbursements of counsel to the Administrative Agent.

The Administrative Agent shall give prompt notice in writing to the Borrower of the occurrence of the First Amendment Effective Date.

SECTION 3 - Representations and Warranties; No Default. In order to induce the Administrative Agent to consent to this First Amendment, the Borrower represents and warrants to each of the Lenders and the Administrative Agent that on and as of the date hereof after giving effect to this First Amendment:

(1) No Default or Event of Default has occurred and is continuing.

(2) The representations and warranties of the Loan Parties set forth in Article V of the Credit Agreement are true and correct in all material respects on and as of the date hereof with the same effect as though made on and as of such date, except that (i) to the extent that such representations and warranties specifically refer to an earlier date, they are true and correct in all material respects as of such earlier date, (ii) the representations and warranties contained in Section 5.05(a) of the Credit Agreement shall be deemed to refer to the most recent statements furnished pursuant to Section 6.01(a) of the Credit Agreement and (iii) any representation and warranty that is qualified as to "materiality" or "Material Adverse Effect" shall be true and correct in all respects as so qualified.

(3) The execution, delivery and performance of this First Amendment (i) are within the Borrower's corporate powers and have been duly authorized by all necessary corporate action and (ii) do not and will not (A) contravene the terms of the Borrower's Organization Documents; (B) conflict with or result in any breach or contravention of, or require any payment to be made under, (x) any Contractual Obligation to which the Borrower is a party or affecting the Borrower or the properties of the Borrower or any of its Restricted Subsidiaries or (y) any order, injunction, writ or decree of any Governmental Authority or any arbitral award to which the Borrower or its property is subject; or (C) violate any Law; except in the case of clauses (ii)(B) and (ii)(C) to the extent that such conflict, breach, contravention or payment would not reasonably be expected to have a Material Adverse Effect.

(4) This First Amendment has been duly executed and delivered by the Borrower and constitutes a legal, valid and binding obligation of the Borrower, enforceable against the Borrower in accordance with its terms, except as such enforceability may be limited by applicable domestic or foreign bankruptcy, insolvency, reorganization, receivership, moratorium or other Laws affecting creditors' rights generally and by general principles of equity.

SECTION 4 - Reference to and Effect on the Credit Agreement and the Notes; Acknowledgements.

(1) On and after the effectiveness of this First Amendment, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement, as amended by this First Amendment. The Credit Agreement and each of the other Loan Documents, as specifically amended by this First Amendment, are and shall continue to be in full force and effect and are hereby in all respects ratified and confirmed. The execution, delivery and effectiveness of this First Amendment shall not, except as expressly provided herein, operate as an amendment or waiver of any right, power or remedy of any Lender or any Agent under any of the Loan Documents, nor constitute an amendment or waiver of any provision of any of the Loan Documents. For the avoidance of doubt, this First Amendment shall constitute a Loan Document for all purposes of the Loan Documents.

(2) Without limiting the foregoing, each of the Loan Parties party to the Guaranty and the Security Agreement hereby (i) acknowledges and agrees that all of its obligations under the Guaranty and the Security Agreement are reaffirmed and remain in full force and effect on a continuous basis, (ii) reaffirms each Lien granted by each Loan Party to the Collateral Agent for the benefit of the Secured Parties and reaffirms the guaranties made pursuant to the Guaranty, (iii) acknowledges and agrees that the grants of security interests by and the guaranties of the Loan Parties contained in the Guaranty and the Security Agreement are, and shall remain, in full force and effect after giving effect to this First Amendment, and (iv) agrees that all Obligations are Guaranteed Obligations (as defined in the Guaranty).

(3) Without limiting the foregoing, Holdings, as party to the Security Agreement hereby (i) acknowledges and agrees that all of its obligations under the Security Agreement are reaffirmed and remain in full force and effect on a continuous basis, (ii) reaffirms each Lien granted it to the

Collateral Agent for the benefit of the Secured Parties, and (iii) acknowledges and agrees that the grants of security interests by it contained in the Security Agreement are, and shall remain, in full force and effect after giving effect to this First Amendment.

SECTION 5 - Expenses. The Borrower agrees to pay or reimburse the Administrative Agent for (i) all of its reasonable out-of-pocket costs and expenses incurred in connection with this First Amendment, any other documents prepared in connection herewith and the transactions contemplated hereby, and (ii) the reasonable documented fees, charges and disbursements of Davis Polk & Wardwell LLP, as counsel to the Administrative Agent.

SECTION 6 - Execution in Counterparts. This First Amendment may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which, when taken together, shall constitute a single contract. Delivery of an executed counterpart of this First Amendment by facsimile transmission or electronic photocopy (i.e., "pdf") shall be effective as delivery of a manually executed counterpart of this First Amendment.

SECTION 7 - Governing Law. THIS FIRST AMENDMENT AND ANY CLAIM, CONTROVERSY OR DISPUTE ARISING UNDER OR RELATED TO THIS FIRST AMENDMENT (INCLUDING, WITHOUT LIMITATION, ANY CLAIMS SOUNDING IN CONTRACT LAW OR TORT LAW ARISING OUT OF THE SUBJECT MATTER HEREOF) SHALL BE CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, AND GOVERNED BY, THE LAW OF THE STATE OF NEW YORK, WITHOUT GIVING EFFECT TO ITS PRINCIPLES OR RULES OF CONFLICT OF LAWS TO THE EXTENT SUCH PRINCIPLES OR RULES ARE NOT MANDATORILY APPLICABLE BY STATUTE AND WOULD REQUIRE OR PERMIT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION.

IN WITNESS WHEREOF, the parties hereto have caused this First Amendment to be duly executed and delivered as of the day and year first above written.

WMG ACQUISITION CORP.

By: /s/ Paul M. Robinson
Name: Paul M. Robinson
Title: Executive Vice President, General Counsel
& Secretary

Acknowledged and agreed:

WMG HOLDINGS CORP.

By: /s/ Paul M. Robinson
Name: Paul M. Robinson
Title: Executive Vice President,
General Counsel & Secretary

Guarantors:

ROADRUNNER RECORDS, INC.
ELEKTRA MUSIC GROUP INC.
THE ALL BLACKS U.S.A., INC.
A. P. SCHMIDT CO.
ATLANTIC RECORDING CORPORATION
ATLANTIC/MR VENTURES INC.
BIG BEAT RECORDS INC.
CAFE AMERICANA INC.
CHAPPELL MUSIC COMPANY, INC.
COTA MUSIC, INC.
COTILLION MUSIC, INC.
CRK MUSIC INC.
E/A MUSIC, INC.
ELEKSYLUM MUSIC, INC.
ELEKTRA/CHAMELEON VENTURES INC.
ELEKTRA ENTERTAINMENT GROUP INC.
ELEKTRA GROUP VENTURES INC.
FHK, INC.
FIDDLEBACK MUSIC PUBLISHING COMPANY, INC.
FOSTER FREES MUSIC, INC.
GENE AUTRY'S WESTERN MUSIC PUBLISHING CO.
GOLDEN WEST MELODIES, INC.
INSOUND ACQUISITION INC.
INTERSONG U.S.A., INC.
JADAR MUSIC CORP.
LEM AMERICA, INC.
LONDON-SIRE RECORDS INC.
MAVERICK PARTNER INC.
MCGUFFIN MUSIC INC.
MELODY RANCH MUSIC CO., INC.

MIXED BAG MUSIC, INC.
NONESUCH RECORDS INC.
NON-STOP MUSIC HOLDINGS, INC.
OCTA MUSIC, INC.
PEPAMAR MUSIC CORP.
REP SALES, INC.
REVELATION MUSIC PUBLISHING CORPORATION
RHINO ENTERTAINMENT COMPANY
RICK'S MUSIC INC.
RIGHTSONG MUSIC INC.
RIDGEWAY MUSIC CO., INC.
RYKO CORPORATION
RYKODISC, INC.
RYKOMUSIC, INC.
SEA CHIME MUSIC, INC.
SR/MDM VENTURE INC.
SUPER HYPE PUBLISHING, INC.
TOMMY VALANDO PUBLISHING GROUP, INC.
UNICHAPPELL MUSIC INC.
W.C.M. MUSIC CORP.
WALDEN MUSIC INC.
WARNER ALLIANCE MUSIC INC.
WARNER BRETHREN INC.
WARNER MUSIC PUBLISHING INTERNATIONAL INC.
WARNER BROS. RECORDS INC.
WARNER CUSTOM MUSIC CORP.
WARNER DOMAIN MUSIC INC.
WARNER MUSIC DISCOVERY INC.
WARNER MUSIC LATINA INC.
WARNER MUSIC SP INC.
WARNER SOJOURNER MUSIC INC.
WARNER SPECIAL PRODUCTS INC.
WARNER STRATEGIC MARKETING INC.
WARNER CHAPPELL MUSIC (SERVICES), INC.
WARNER CHAPPELL MUSIC, INC.
WARNER CHAPPELL PRODUCTION MUSIC, INC.
WARNER-ELEKTRA-ATLANTIC CORPORATION
WARNERSONGS, INC.
WARNER-TAMERLANE PUBLISHING CORP.
WARPRISE MUSIC INC.

WC GOLD MUSIC CORP.
W CHAPPELL MUSIC CORP.
WCM/HOUSE OF GOLD MUSIC, INC.
WARNER RECORDS/QRI VENTURE, INC.
WARNER RECORDS/RUFFNATION VENTURES, INC.
WARNER RECORDS/SIRE VENTURES LLC
WEA EUROPE INC.
WEA INC.
WEA INTERNATIONAL INC.
WIDE MUSIC, INC.
WRONG MAN DEVELOPMENT LIMITED LIABILITY COMPANY
WMG PRODUCTIONS LLC
ARTS MUSIC INC.
ASYLUM RECORDS LLC
ASYLUM WORLDWIDE LLC
AUDIO PROPERTIES/BURBANK, INC.
ATLANTIC MOBILE LLC
ATLANTIC PRODUCTIONS LLC
ATLANTIC SCREAM LLC
ATLANTIC/143 L.L.C.
BB INVESTMENTS LLC
BULLDOG ISLAND EVENTS LLC
BUTE SOUND LLC
CORDLESS RECORDINGS LLC
EAST WEST RECORDS LLC
FOZ MAN MUSIC LLC
FUELED BY RAMEN LLC
LAVA RECORDS LLC
MM INVESTMENT LLC
RHINO NAME & LIKENESS HOLDINGS, LLC
RHINO/FSE HOLDINGS, LLC
T-BOY MUSIC, L.L.C.
T-GIRL MUSIC, L.L.C.
THE BIZ LLC
UPPED.COM LLC
WARNER MUSIC DISTRIBUTION LLC
J. RUBY PRODUCTIONS, INC.
SIX-FIFTEEN MUSIC PRODUCTIONS, INC.
SUMMY-BIRCHARD, INC.
ARTIST ARENA LLC
ATLANTIC PIX LLC
FERRET MUSIC HOLDINGS LLC
FERRET MUSIC LLC

FERRET MUSIC MANAGEMENT LLC
FERRET MUSIC TOURING LLC
P & C PUBLISHING LLC
WARNER MUSIC NASHVILLE LLC
WMG COE, LLC

By: __/s/ Paul M. Robinson _____
Name: Paul M. Robinson
Title: Vice President & Secretary of each of the above named entities listed under the heading Guarantors and signing this agreement in such capacity on behalf of each such entity

WARNER MUSIC INC.

By: /s/ Paul M. Robinson
Name: Paul M. Robinson
Title: Executive Vice President, General Counsel & Secretary

615 MUSIC LIBRARY, LLC

By: Six-Fifteen Music Productions, Inc., its Sole Member

By: /s/ Paul M. Robinson
Name: Paul M. Robinson
Title: Vice President & Secretary

ARTIST ARENA INTERNATIONAL, LLC

By: Artist Arena LLC, its Sole Member
By: Warner Music Inc., its Sole Member

By: /s/ Paul M. Robinson
Name: Paul M. Robinson
Title: Executive Vice President, General Counsel & Secretary

ALTERNATIVE DISTRIBUTION ALLIANCE

By: Warner Music Distribution LLC, its Managing Partner
By: Rep Sales, Inc., its Sole Member and Manager

By: /s/ Paul M. Robinson
Name: Paul M. Robinson
Title: Vice President & Secretary

MAVERICK RECORDING COMPANY

By: SR/MDM Venture Inc., its Managing Partner

By: /s/ Paul M. Robinson
Name: Paul M. Robinson
Title: Vice President & Secretary

NON-STOP CATACLYSMIC MUSIC, LLC
NON-STOP INTERNATIONAL PUBLISHING, LLC
NON-STOP OUTRAGEOUS PUBLISHING, LLC

By: Non-Stop Music Publishing, LLC, their Sole Member
By: Non-Stop Music Holdings, Inc., its Sole Member

By: /s/ Paul M. Robinson
Name: Paul M. Robinson
Title: Vice President & Secretary

NON-STOP MUSIC LIBRARY, L.C.
NON-STOP MUSIC PUBLISHING, LLC
NON-STOP PRODUCTIONS, LLC

By: Non-Stop Music Holdings, Inc., their Sole Member

By: /s/ Paul M. Robinson
Name: Paul M. Robinson
Title: Vice President & Secretary

CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH, as Administrative Agent

By: /s/ Judith E. Smith
Name: Judith E. Smith
Title: Authorized Signatory

By: /s/ Nicolas Thierry
Name: Nicolas Thierry
Title: Authorized Signatory

[Signature Page to First Amendment to Revolving Credit Agreement]

Exhibit 10.19

WARNER/CHAPPELL MUSIC, INC.
10585 Santa Monica Boulevard
Los Angeles, CA 90025

January 8, 2019

Guy Moot
Address on file with Company

Dear Guy:

This letter, when signed by you and countersigned by us ("Company"), shall, subject to (a) your successful completion of the employment application process (including, without limitation, completion of a criminal background investigation and reference checks) in accordance with Company's policy to the reasonable satisfaction of Company and (b) obtaining any requisite employment authorization (including a work visa), constitute our agreement (the "Agreement") with respect to your employment with Company. Reference is made to the service agreement between you and Warner/Chappell Music Limited of even date herewith (the "UK Service Agreement") and capitalized terms not defined herein shall have the meanings set forth in the UK Service Agreement.

1. Position and Responsibilities: Co-Chair and Chief Executive Officer, Warner/Chappell Music. In such capacity, you shall be the most senior executive of Warner Music Group's Music Publishing division, Warner/Chappell Music. Warner/Chappell Music's A&R, Creative, Production Music and Broadcast Music functions and the heads of Warner/Chappell Music's affiliated operating companies throughout the world (e.g., Warner/Chappell Music France S.A.S.) shall report directly and solely to you. Warner/Chappell Music's Company P&L, Business Affairs, Budget Management, Deal Making, M&A, Business Strategy and Priorities & Roadmap functions shall report jointly to you and the Co-Chair and Chief Operating Officer, Warner/Chappell Music (which position is initially to be filled by Carianne Marshall).

2.Term: The term of this Agreement (the "Term") shall commence on the Relocation Date and end on March 31, 2024.

3.Compensation:

(a) Salary: During the Term, Company shall pay you a salary at the rate of $1,750,000 per annum. Company agrees to review your salary and your target bonus amount stated in Paragraph 3(b) in good faith no later than three (3) years after the commencement of your employment with Company; provided, however, that any increase of your salary or target bonus amount shall remain in

Company's sole discretion and Company shall have no obligation to increase your salary or target bonus amount at such time. For purposes of this paragraph, Company acknowledges that your employment with Company shall be deemed to have commenced on April 1, 2019.

(b) Annual Discretionary Bonus: With respect to each fiscal year of the Term which is anticipated to commence with the fiscal year that begins October 1, 2019 and ends September 30, 2020 (i.e., the 2020 fiscal year), Company shall consider granting to you an annual bonus (or a pro rata portion thereof for a portion of such fiscal year). If, as anticipated, you are employed under the UK Service Agreement for part of the 2020 fiscal year and under this Agreement for the remainder of the 2020 fiscal year, any annual discretionary bonus that may be awarded to you for the entire 2020 fiscal year shall be awarded under this Agreement and not under the UK Service Agreement (and it is agreed that if the Term commences during the 2019 fiscal year, the same shall apply in respect of the 2019 fiscal year, that is, any annual discretionary bonus that may be awarded to you for the entire 2019 fiscal year shall be awarded under this Agreement and not under the UK Service Agreement). Your target bonus for each fiscal year of the Term shall be $1,750,000 (or a pro rata portion of such amount for a portion of a fiscal year), and the amount of any annual bonus awarded to you shall be determined by Company in its sole discretion based on factors including the strength of your performance and the performance of Company and of Warner Music Group; provided that the amount of any annual bonus awarded to you may be higher or lower than the target amount.

(c) New LTIP: If, during the Term, Warner Music Group establishes a new long-term incentive plan or program (a "New LTIP") for which executives of Warner Music Group at your level are eligible to participate, then Warner Music Group shall, in good faith, offer you the opportunity to participate in such New LTIP in accordance with the terms and conditions of such plan or program.

(d) Payment of Compensation: Compensation accruing to you during the Term shall be payable in accordance with the regular payroll practices of Company for employees at your level. You shall not be entitled to additional compensation for performing any services for Company's subsidiaries or affiliates; provided that the only such services that you may be required to perform are occasional services for subsidiaries or affiliates of Company appropriate to your position.

4. Exclusivity: Your employment with Company shall be full-time and exclusive. During the Term you shall not render any services for others, or for your own account, in the field of entertainment or otherwise; provided, however, that (a) you shall not be precluded from personally, and for your own account as a passive investor, investing or trading in real estate, stocks, bonds, securities, commodities, or other forms of investment for your own benefit, except that your rights

hereafter to invest in any business or enterprise principally devoted to any activity which, at the time of such investment, is competitive to any business or enterprise of Company or the subsidiaries or affiliates thereof, shall be limited to the purchase of not more than three percent (3%) of the issued and outstanding stock or other securities of a corporation listed on a national securities exchange or traded in the over-the-counter market, and (b) to the extent such activities do not interfere with the performance of your duties hereunder, you shall not be precluded from occasionally rendering services to charitable organizations, including serving on the board of directors of charitable organizations as are approved in advance by Company in writing.

5.Reporting: You shall at all times work under the supervision and direction of the Chief Executive Officer of Warner Music Group (currently, Steve Cooper) or the Chief Operating Officer of Warner Music Group (if such an officer is appointed) as Warner Music Group may determine in its sole reasonable discretion; provided that you and the Co-Chair and Chief Operating Officer, Warner/Chappell Music, shall at all times report to the same senior executive officer. You shall perform such duties consistent with your position as you shall reasonably be directed to perform by such senior executive officer.

6.Place of Employment: The greater Los Angeles metropolitan area. You shall render services in the offices designated by Company at such location. You also agree to travel on temporary trips to such other place or places as may be required from time to time to perform your duties hereunder.

7.Travel and Entertainment Expenses: Company shall pay for reasonable expenses actually incurred, or reimburse you for reasonable expenses paid, by you during the Term in the performance of your services hereunder in accordance with Company's policy for employees at your level upon presentation of expense statements or vouchers or such other supporting information as Company may customarily require. You shall be entitled to travel in accordance with Company's policies for employees at your level; provided that in relation to international flights, it is agreed that in exceptional circumstances and where business needs so require, you shall be eligible to travel first class with the prior approval of the senior executive officer to whom you report pursuant to Paragraph 5.

8.Benefits:

(a) Fringe Benefits: While you are employed hereunder, you shall be entitled to all fringe benefits generally accorded to employees of Company at your level from time to time, including medical health and accident, group insurance and similar benefits, provided that you are eligible under the general provisions of any applicable plan or program and Company continues to maintain such plan or program during the Term. You shall also be entitled to four (4) weeks of vacation (with pay) during each calendar year of the Term in accordance with Company's policies with respect to vacations for employees, which vacation shall be taken at

reasonable times to be approved by Company. In addition, during the Term you shall be entitled to paid time off with respect to any periods during which paid time off is provided to employees of Company generally (e.g., Company holidays and Christmas/New Year's week if Company closes its office during such period).

(b) Work Authorization: Company will also provide professional assistance with obtaining and maintaining a work permit and/or visa for you and visas for your partner and your dependent children, the cost of which shall be paid by Company directly; provided, however, in the event you are terminated by Company for any reason: (a) and the legal and administrative process has not been initiated by Company at the time of termination, Company shall be under no obligation to obtain such work permit and/or visas for you, your partner and your dependent children, and/or pay for such fees associated with such process incurred after such termination and you will be solely responsible for obtaining such work permit and/or visas if you, your partner and/or your dependent children remain in the United States (including such legal and administrative fees incurred after such termination); or (b) and the legal and administrative process has been initiated at the time of such termination, Company shall cease paying for any legal and administrative fees which are incurred by you after such termination for maintaining such work permit and/or visas for you, your partner and your dependent children. You are solely responsible for any maintenance or fees for your work permit and your/their visas, if you, your partner and/or your dependent children remain in the United States after such termination with Company. You shall not be in breach of this Agreement and shall not be required to proceed with the Relocation pursuant to the UK Service Agreement if you, acting reasonably and in good faith, are unable to obtain and maintain the appropriate U.S. work permits and/or visas for you, your partner and your dependent children.

(c) Tax Filing Assistance: Company shall pay for reasonable fees incurred by you during the Term and one year thereafter in connection with preparation of annual tax returns you are required to file in the United States and the United Kingdom (as applicable); provided that you use the service provider selected by Company (acting reasonably and in good faith) and that such preparation fees shall be subject to the approval of Company (such approval not to be unreasonably withheld) and consistent with Company policy.

(d) Support: After your employment commences under the UK Service Agreement and prior to the Relocation Date, Company shall provide you with an office and assistant services in the Los Angeles office of Company. After the Relocation Date and during the Term, Company shall provide you with a dedicated executive assistant reasonably selected by you in good faith and in accordance with Company's policies.

9. Disability/Death: If you shall become physically or mentally incapacitated from performing your duties hereunder, and such incapacity shall continue for a period

of four (4) consecutive months or more or for shorter periods aggregating four (4) months or more in any twelve-month period, Company shall have the right (before the termination of such incapacity), at its option, to terminate this Agreement with no consequence, except if such termination would be prohibited by law. Upon termination of this Agreement pursuant to the foregoing, you shall continue to remain employed by Company as an at-will employee. In the event your at-will employment with Company subsequently terminates, (a) Company shall pay to you the Basic Termination Payments (as defined below) and (b) in the event such termination is due to termination by Company other than for Cause or resignation by you with Good Reason, and subject to your execution of a Release (as defined below), Company shall also (i) pay to you any awarded but unpaid annual bonus for the most recently completed fiscal year prior to the Termination Date, which, if payable, shall be paid when annual discretionary bonuses with respect to such fiscal year are paid to Company employees generally (the "Prior Year Bonus"), and (ii) grant to you a pro rata portion of an annual bonus with respect to the portion of the fiscal year during which you rendered services to Company prior to the Termination Date, the amount of which (if any) shall be determined in Company's sole discretion taking into consideration the target bonus amount stated in Paragraph 3(b), your performance and Company's performance, and shall be paid to you when bonuses with respect to such fiscal year are paid to Company employees generally (a "Pro Rata Bonus"). In the event of your death during the Term, this Agreement shall automatically terminate except that Company shall pay to your estate the Basic Termination Payments, the Prior Year Bonus and a Pro Rata Bonus.

10. Termination by Company for Cause; Termination by You for Good Reason.

(a) Termination by Company for Cause: Company may at any time during the Term, by written notice, terminate your employment and this Agreement for Cause, such Cause to be specified in the notice of termination. The following acts by you shall constitute "Cause" hereunder: (i) any willful or intentional act or omission having the effect, which effect is reasonably foreseeable, of injuring, to an extent that is not de minimis, the reputation, business, business relationships or employment relationships of Company or its affiliates; (ii) conviction of, or plea of nolo contendere to, a misdemeanor involving theft, fraud, forgery, embezzlement or the sale or possession of illicit substances or a felony, unless prohibited by applicable law; (iii) breach of any material representation, warranty or covenant contained in this Agreement; (iv) violation of Company's policies, including those described in Paragraph 17(b), as determined by Company in good faith; and (v) repeated or continuous failure, neglect or refusal to perform your material duties hereunder. Notice of termination given to you by Company shall specify the reason(s) for such termination. In the case where a cause for termination described in clause (iii), (iv) or (v) above is susceptible of cure (as determined by Company), and such notice of termination is the first notice of termination given to you for such reason, if you fail to cure such Cause for

termination to the reasonable satisfaction of Company within fifteen (15) business days after the date of such notice, termination shall be effective upon the expiration of such fifteen-business-day period, and if you cure such Cause within such fifteen-business-day period, such notice of termination shall be ineffective. In all other cases, notice of termination shall be effective on the date thereof. In the event of the termination of your employment pursuant to this Paragraph 10(a), this Agreement shall automatically terminate except that Company shall pay to you the Basic Termination Payments.

(b) Termination by You for Good Reason:

(i) For purposes of this Paragraph 10(b), Company shall be in breach of its obligations to you hereunder if there shall have occurred any of the following events (each such event being referred to as a "Good Reason"): (A) a material reduction in your title, authority or responsibilities as set forth in Paragraph 1 shall have been put into effect; (B) Company fails to pay to you any monies due hereunder in accordance with applicable law; (C) Company requires you to relocate your primary residence outside the greater Los Angeles or London metropolitan areas (other than requiring the Relocation) in order to perform your duties to Company hereunder; (D) you shall have been required to report to anyone other than as provided in Paragraph 5; or (E) Company assigns its rights and obligations under this Agreement in contravention of the provisions of Paragraph 17(e).

(ii) You may exercise your right to terminate your employment and this Agreement for Good Reason pursuant to this Paragraph 10(b) by notice given to Company in writing specifying the Good Reason for termination within ninety (90) days after the occurrence of any such event constituting Good Reason, otherwise your right to terminate your employment and this Agreement by reason of the occurrence of such event shall expire and shall be deemed to have permanently lapsed. Any such termination in compliance with the provisions of this Paragraph 10(b) shall be effective thirty (30) days after the date of your written notice of termination, except that if Company shall cure such specified Good Reason within such thirty-day period, you shall not be entitled to terminate your employment and this Agreement by reason of such specified Good Reason and the notice of termination given by you shall be null and void and of no effect whatsoever.

11. Consequences of Breach by Company or Non-renewal:

(a) In the event of a Special Termination (as defined below) of your employment, your sole remedy shall be that, subject to your execution of a Release, Company shall pay to you the Special Termination Payments (as defined below), and in the event of a Qualifying Non-renewal (as defined below), your sole remedy shall be that, subject to your execution of a Release, Company shall

pay to you the Non-renewal Payments (as defined below); provided Company shall cease making Termination Payments (as defined below) if you do not deliver the signed Release within the time period set forth in the Release. In addition, in the event of a Special Termination or Qualifying Non-renewal, Company shall pay to you the Basic Termination Payments. Further, subject to your execution of a Release, (i) in the event of a Special Termination, Company shall provide you with Repatriation Assistance (as defined below) and pay to you the Prior Year Bonus and a Pro Rata Bonus and (ii) in the event of a Qualifying Non-renewal, Company shall provide you with Repatriation Assistance and consider in good faith paying to you the Prior Year Bonus and a Pro Rata Bonus. Special Termination Payments and Non-renewal Payments are sometimes herein referred to as the "Termination Payments." "Repatriation Assistance" shall mean, in the event of a Special Termination or Qualifying Non-renewal, payment to you or reimbursement by Company of certain one-time relocation expenses incurred in connection with the move by you, your partner and your dependent children from the greater Los Angeles metropolitan area to the greater London metropolitan area (e.g., shipping of household goods and reasonable travel associated with such relocation); provided that (A) such relocation must occur within the later of six (6) months after the Termination Date or six (6) months after the last day of the then-current school year; (B) you must use Company's designated relocation services vendor and comply with Company policy, and (C) the total amount actually paid or reimbursed by Company for such relocation expenses, inclusive of any "gross up" amounts, shall not exceed $75,000 in the aggregate.

(b) The "Basic Termination Payments" shall mean any accrued but unpaid salary, accrued but unused vacation pay in accordance with Company policy, any unreimbursed expenses pursuant to Paragraph 7, plus any accrued and vested but unpaid benefits in accordance with Paragraph 8(a), in each case to the date on which your employment terminates (the "Termination Date"). Basic Termination Payments shall be paid to you in accordance with Company policy or in accordance with the terms of the applicable plan.

(c) A "Release" shall mean a mutual release agreement in Company's standard form, which you and your personal attorney shall have a right to review during the time period set forth therein and which shall include (i) a release by you of Company from any and all claims which you may have relating to your employment with Company and the termination of such employment and (ii) a release by Company of you from any and all claims which Company may have relating to your employment with Company and the termination of such employment.

(d) A "Special Termination" shall have occurred in the event that (i) Company terminates your employment hereunder other than pursuant to Paragraph 9 or 10(a), or (ii) you terminate your employment pursuant to Paragraph 10(b).

(e) "Special Termination Payments" shall mean the greater of (i) the Severance Amount (as defined below) and (ii) an amount equal to eighteen (18) months' salary at the per annum salary rate payable to you hereunder as of the Termination Date.

(f) A "Qualifying Non-renewal" shall have occurred in the event that, at the end of the Term: (i) Company declines to offer you continued employment with Company or one of its affiliates or (ii) Company offers you continued employment with Company or one of its affiliates for a term of less than an additional three (3) years or with a title, salary or target bonus amount lower than your title, salary or target bonus amount, respectively, as in effect on the last day of the Term, and you decline such offer and elect to terminate your employment with Company.

(g) The "Non-renewal Payments" shall mean the greater of (i) amount of severance pay (the "Severance Amount") that would have been payable to you under Company policy as in effect on the Termination Date had you not been subject to an employment agreement with Company and (ii) an amount equal to twelve (12) months' salary at the per annum salary rate payable to you hereunder as of the Termination Date.

(h) Any Termination Payments payable to you under Paragraph 11(e) or (g) shall be made by Company in accordance with its regular payroll practices by payment of such Termination Payments at the same per annum salary rate as was in effect as of the Termination Date for the applicable period as is necessary to cause the full amount due under such Paragraph to be paid (the "Payment Period"); provided that if the total Termination Payments payable to you exceed an amount equal to fifty-two weeks of your salary, then the Termination Payments payable to you shall be made in equal periodic payments to you (at such times as Company makes payroll payments to its employees generally) during the fifty-two-week period immediately following the date on which your employment terminates. In addition, such Termination Payments shall commence on the next possible pay cycle following the Termination Date; provided that Company shall cease making Termination Payments if you do not deliver the signed Release to Company within the time period set forth in the Release.

(i) In the event you elect not to execute and deliver a Release within the time period set forth therein in connection with a Special Termination or a Qualifying Non-renewal, Company shall only be obligated to pay to you the Basic Termination Payments. Following the delivery of an executed Release pursuant to this Paragraph 11, you shall have no duty to seek substitute employment, and Company shall have no right of offset against any amounts payable to you under this Paragraph 11 with respect to any compensation or fees received by you from any employment obtained or consultancy arrangement entered into by you.

(j) In the event of a Special Termination or a Qualifying Non-renewal, during the period commencing immediately following the Termination Date and through the last day of the calendar month in which the Termination Date occurs (such period, the "Benefits Period"), Company shall continue to provide you and your eligible family members with medical health insurance coverage, including dental and vision insurance coverage under the group insurance plan maintained by Company ("Benefits Coverage") in accordance with the terms of the applicable plans, to the extent that you had elected for such coverage prior to the Termination Date. Following the Benefits Period, you may have the right, in accordance with and subject to the Consolidated Omnibus Budget Reconciliation Act, as amended ("COBRA"), at your expense, to elect to continue your and/or your dependents' Benefits Coverage for such additional period of time as is required under COBRA. Further information regarding COBRA coverage, including enrollment forms and premium quotations, shall be sent to you separately.

(k) In the event you resign from your employment hereunder prior to the expiration of the Term other than for Good Reason, without limitation of other rights or remedies available to Company, Company shall have no further obligations to you under this Agreement or otherwise, except for the Basic Termination Payments.

12. Confidential Matters: You shall keep secret all confidential matters of Company and its affiliates (for purposes of Paragraphs 12 and 13 only, "Company"), and shall not disclose them to anyone outside of Company, either during or after your employment with Company, except (a) with Company's prior written consent; (b) as required by law or judicial process or as permitted by law for the purpose of reporting a violation of law; or (c) to your professional advisors to the extent reasonable and necessary. Company hereby informs you, and you hereby acknowledge, in accordance with 18 U.S.C. Section 1833(b), that you may not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret where the disclosure (i) is made (A) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (B) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. You shall deliver promptly to Company upon termination of your employment, or at any time as Company may request, all confidential memoranda, notes, records, reports and other documents (and all copies thereof) relating to the business of Company which you may then possess or have under your control; provided that you may retain your personal files (i.e., your files not related to Company) and a copy of your address book.

13. Non-Solicitation: While you are employed by Company and for a period of one year thereafter, you shall not, without the prior written consent of Company, directly or indirectly, as an employee, agent, consultant, partner, joint venturer,

owner, officer, director, member of any other firm, partnership, corporation or other entity, or in any other capacity: (a) induce (or attempt to induce) a breach or disruption of the contractual relationship between Company (or a label distributed by Company) and any recording artist (including a duo or a group), publisher or songwriter (including a recording artist or songwriter who has contracted through a furnishing entity) ("Company Artist"); (b) use Company's trade secrets or confidential information to solicit, induce or encourage any individual who at the time is, or who within the one-year prior period was, a Company Artist to end its relationship with Company or to enter into an exclusive recording or music publishing agreement with any other party; or (c) solicit, induce or encourage any individual who at the time is, or who within the six-month prior period was, an employee of Company in the United States to leave his or her employment or to commence employment with any other party.

14. Results and Proceeds of Employment: You acknowledge that Company shall own all rights of every kind and character throughout the world in perpetuity in and to any material and/or ideas written, suggested or in any way created by you hereunder and all other results and proceeds of your services hereunder, including all copyrightable material created by you within the scope of your employment. You agree to execute and deliver to Company such assignments or other instruments as Company may require from time to time to evidence Company's ownership of the results and proceeds of your services.

15. Indemnity: Company agrees to indemnify you against expenses (including final judgments and amounts paid in settlement to which Company has consented in writing, which consent shall not be unreasonably withheld) in connection with litigation against you arising out of the performance of your duties hereunder; provided that (a) the foregoing indemnity shall only apply to matters for which you perform your duties for Company in good faith and in a manner you reasonably believe to be in or not opposed to the best interests of Company and not in contravention of the instructions of any senior officer of Company and (b) you shall have provided Company with prompt notice of the commencement of any such litigation. Company will provide defense counsel selected by Company. You agree to cooperate in connection with any such litigation.

16. Notices: All notices, requests, consents and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given if delivered personally or sent by prepaid courier, or mailed first-class, postage prepaid, by registered or certified mail, return receipt requested as follows:

TO YOU:	TO COMPANY:
Guy Moot Address on file with Company	Warner/Chappell Music, Inc. 10585 Santa Monica Boulevard Los Angeles, CA 90025 Attn: Vice President, Human Resources
With a copy to:	With a copy to:
Carroll, Guido & Groffman, LLP 5 Columbus Circle 20th Floor New York, NY 10019 Attn: Michael Guido, Esq.	Warner Music Inc. 1633 Broadway New York, NY 10019 Attn: General Counsel

Either you or Company may change the address to which notices are to be sent by giving written notice of such change of address to the other in the manner herein provided for giving notice.

17.Miscellaneous:

(a) You represent and warrant as follows: (i) you are free to enter into this Agreement and to perform each of the terms and covenants hereunder; (ii) you are not restricted or prohibited, contractually or otherwise, from entering into and performing this Agreement and that your execution of and performance under this Agreement is not a violation or breach of any other agreement; and (iii) you have not disclosed to Company or any officer or other affiliate of Company any proprietary information or trade secrets of any former employer or of your current employer (if applicable). You represent and warrant that your current employer has agreed to release you from any contractual commitments (other than with respect to use of confidential information) effective no later than the first day of the Term. Upon request of Company, you shall provide or have provided as of the date hereof, Company with a copy of any release document signed by your current employer. You further covenant that you shall not enter into any other agreements (including an extension or amendment of any agreement) that would restrict or prohibit you from entering into or performing under this Agreement.

(b) You acknowledge and agree that while you are employed hereunder you shall comply with Company's Code of Conduct (or any successor document) and other corporate policies including the requirements of Company's compliance and ethics program, each as in effect from time to time, of which you are made aware.

(c) You acknowledge that services to be rendered by you under this Agreement are of a special, unique and intellectual character which gives them peculiar value, and that a breach or threatened breach of any provision of this Agreement (particularly, but without limitation, the provisions of Paragraphs 4, 12, 13 and 14), will cause Company immediate irreparable injury and damage which cannot be reasonably or adequately compensated in damages in an action at

law. Accordingly, without limiting any right or remedy which Company may have in such event, you specifically agree that Company shall be entitled to seek injunctive relief to enforce and protect its rights under this Agreement. The provisions of this Paragraph 17(c) shall not be construed as a waiver by Company of any rights which Company may have to damages or any other remedy or by you as a waiver by you of any rights which you may have to offer fact-based defenses to any request made by Company for injunctive relief.

(d) This Agreement, together with the UK Service Agreement, set forth the entire agreement and understanding of the parties hereto, and supersedes and terminates any and all prior agreements, arrangements and understandings. No representation, promise or inducement has been made by either party that is not embodied in this Agreement or the UK Service Agreement, and neither party shall be bound by or liable for any alleged representation, promise or inducement not herein or therein set forth. This Agreement may be executed in one or more counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile transmission or by email shall be effective as delivery of a manually executed counterpart of this Agreement. If any provision of this Agreement or the application thereof is held to be wholly invalid, such invalidity shall not affect any other provisions or the application of any provision of this Agreement that can be given effect without the invalid provisions or application, and to this end the provisions of this Agreement are hereby declared to be severable.

(e) The provisions of this Agreement shall inure to the benefit of the parties hereto, their heirs, legal representatives, successors and permitted assigns. This Agreement, and your rights and obligations hereunder, may not be assigned by you. By operation of law or otherwise, Company may assign its rights, together with its obligations, hereunder in connection with any sale, transfer or other disposition of all or a substantial portion of the stock or assets of Company or any direct or indirect parent of Company.

(f) Nothing contained in this Agreement shall be construed to impose any obligation on Company to renew this Agreement. This Agreement may be amended, modified, superseded, canceled, renewed or extended, and the terms or covenants hereof may be waived, only by a written instrument executed by both of the parties hereto, or in the case of a waiver, by the party waiving compliance. Neither the continuation of employment nor any other conduct shall be deemed to imply a continuing obligation upon the expiration or termination of this Agreement. Upon the expiration of the Term, the continuation of your employment (if applicable) shall be deemed “at-will.” Accordingly, upon the expiration of the Term, your employment with Company shall not be subject to a defined term, but rather, you may terminate your employment with Company at any time and for any reason and Company may terminate your employment at any

time and for any reason; and in the event of such subsequent termination of your employment for any reason, the provisions of this Agreement relating to Special Termination Payments shall be of no force or effect. In the event of the expiration or termination of this Agreement for any reason, only the provisions of Paragraphs 12, 13, 14, 15, 16, 17 and 18 shall survive and all other provisions of this Agreement, including the provisions relating to Special Termination Payments, shall be of no further force or effect; provided that the provisions of Paragraph 11 shall survive the termination or expiration of this Agreement pursuant to a Special Termination or Qualifying Non-renewal and the provisions of Paragraph 9 shall survive the termination of this Agreement by reason of your death or termination by Company thereunder. The failure of either party at any time or times to require performance of any provision hereof shall in no manner affect the right at a later time to enforce the same. No waiver by either party of the breach of any term or covenant contained in this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such breach, or a waiver of the breach of any other term or covenant contained in this Agreement.

(g) This Agreement shall be governed by and construed according to the laws of the State of California as applicable to agreements executed in and to be wholly performed within such State. Exclusive jurisdiction of any dispute, action, proceeding or claim arising out of or relating to this Agreement shall lie in the state or federal courts in the State of California, located in Los Angeles County.

(h) All payments made to you hereunder shall be subject to applicable withholding, social security taxes and other ordinary and customary payroll deductions, including medical and other insurance premiums.

(i) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. The words (i) “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation,” and (ii) “herein,” “hereof” and “hereunder,” and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof.

18. Section 409A: This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the “Code”) and shall be interpreted in a manner intended to comply with Section 409A of the Code (and any related regulations or other pronouncements). Amounts payable under this Agreement shall be deemed not to be a “deferral of compensation” subject to Section 409A of the Code to the extent provided in the exceptions set forth in Treas. Reg. Section 1.409A-1(b)(4) (“short-term deferrals”) and Treas. Reg. Section 1.409A-1(b)(9) (“separation pay plans”) and other applicable provisions of Treas. Reg. Section 1.409A-1 through A-6. References under this Agreement to a termination of your employment shall be deemed to refer to the date upon which you have

experienced a “separation from service” within the meaning of Section 409A of the Code. Notwithstanding anything herein to the contrary, (a) if at the time of your separation from service with Company you are a “specified employee” as defined in Section 409A of the Code (and any related regulations or other pronouncements thereunder) and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A of the Code, then Company shall defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to you) until the date that is six months following your separation from service (or the earliest date as is permitted under Section 409A of the Code), at which point all payments deferred pursuant to this Paragraph shall be paid to you in a lump sum and (b) if any other payments of money or other benefits due to you hereunder could cause the application of an accelerated or additional tax under Section 409A of the Code, such payments or other benefits shall be deferred if deferral shall make such payment or other benefits compliant under Section 409A of the Code, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner, determined by Company, that does not cause such an accelerated or additional tax. To the extent any reimbursements or in-kind benefits due to you under this Agreement constitute “deferred compensation” under Section 409A of the Code, any such reimbursements or in-kind benefits shall be paid to you in a manner consistent with Treas. Reg. Section 1.409A-3(i)(1)(iv). Each payment made under this Agreement shall be designated as a “separate payment” within the meaning of Section 409A of the Code. For the avoidance of doubt, any continued health benefit plan coverage that you are entitled to receive following your termination of employment is expected to be exempt from Section 409A of the Code and, as such, shall not be subject to delay pursuant to this Paragraph.

[signature page follows]

If the foregoing correctly sets forth our understanding, please sign below and return this Agreement to Company.

Very truly yours,

WARNER/CHAPPELL MUSIC, INC.

By: /s/ Paul Robinson_____
Name: Paul Robinson
VP and Secretary

Accepted and Agreed:

/s/ Guy Moot_____
Guy Moot

Exhibit 10.20

Dated 8 January 2019

(1) WARNER/CHAPPELL MUSIC LIMITED

and

(2) GUY MOOT

SERVICE AGREEMENT

COEX-
9.19

THIS AGREEMENT is made on 8 January 2019

BETWEEN:-

(1) WARNER/CHAPPELL MUSIC LIMITED (registered number 00488466) whose registered office is Cannon Place, 78 Cannon Street, London, EC4N 6AF (the "Company")

(2) GUY MOOT of **26 Blenheim Terrace, London, NW8 0EG (the "Executive")**

1. **EMPLOYMENT**

1.1 It is agreed that the Executive will be employed by the Company in Greater London during the Term (as defined below), save that if the executive to whom the Executive reports (currently Steve Cooper) determines in good faith, after meaningful consultation with the Executive, that it is in the best interests of the Company for the Executive to relocate to Los Angeles, California, the Executive shall be notified by Company that he is required to relocate and the Executive shall relocate to Los Angeles, California (the "Relocation"). In such event, the Relocation shall take place (subject to payment of the Relocation Costs in clause 5.8 below) and with effect from the date of the Relocation, this Agreement shall terminate and the Agreement signed between the Executive and Warner/Chappell Music, Inc. shall operate in respect of the Executive's employment with Warner/Chappell Music in Los Angeles, California. The Relocation is likely to take place around July/August 2020, on such date as is determined in good faith by the executive to whom the Executive reports after meaningful consultation with the Executive taking into account the academic calendar for the Executive's dependent children ("the Relocation Date"), save that it is agreed that if the Executive requests that the Relocation Date should take place earlier around July/August 2019 or around December 2019, the Relocation Date will take place on such earlier date as is determined in good faith by the executive to whom the Executive reports after meaningful consultation with the Executive. For the avoidance of doubt, it is agreed that the termination of this Agreement by reason of the Relocation shall not constitute a termination by the Company for the purposes of clause 2.4 below.

1.2 The Company shall employ the Executive and the Executive shall act as Co-Chair and Chief Executive Officer Warner/Chappell Music. In such capacity, the Executive shall be the most senior executive of the Warner Music Group's Music Publishing division, Warner/Chappell Music. Warner/Chappell Music's A&R, Creative, Production Music and Broadcast Music functions and the heads of Warner/Chappell's Music's affiliated operating companies throughout the world (e.g., Warner/Chappell Music France S.A.S.) shall report solely and directly to the Executive. Warner/Chappell Music's Company

P&L, Business Affairs, Budget Management, Deal Making, M&A, Business Strategy and Priorities & Roadmap functions shall report jointly to the Executive and to the Co-Chair and Chief Operating Officer, Warner/Chappell Music (which position is initially to be filled by Carianne Marshall). The Executive shall serve as a director of the Company and of such Group Companies that are notified to the Executive by the Board from time to time.

1.3 The Executive's continuous employment shall commence on the Commencement Date (as defined in clause 2.1 below).

1.4 The Executive confirms, represents and warrants that the Executive is not bound by or subject to any agreement, arrangement, court order obligation or undertaking which in any way restricts or prohibits the Executive from entering into, or performing the Executive's duties under this Agreement, other than those disclosed to the Company.

2. TERMS OF THE EMPLOYMENT

2.1 This Agreement shall commence on 1 April 2019 ("Commencement Date") and, subject to clause 11 below, shall continue for an initial period of five years (the "Term") ("the Employment").

2.2 The Company is not obliged to provide the Executive with work and it may, subject to clause 9.4 below, in respect of all or part of any unexpired Term or period of notice, suspend the Executive on garden leave and require the Executive:

2.2.1 not to perform the Executive's duties;

2.2.2 to abstain from contacting any Company or Group Company clients, artists, producers, composers, songwriters, employees, consultants, supplier or agents (save for purely social contact);

2.2.3 not to enter Company or Group Company premises without the consent or at the request of the Company;

2.2.4 to resign from any office(s) in the Company and/or any Group Company; and/or

2.2.5 to return to the Company all documents and other property belonging to the Company and/or any Group Company;

provided always that the Executive will not be placed on garden leave for any period or periods exceeding six (6) months in aggregate.

2.3 The Employment and entitlement to salary and benefits (including the bonus specified at clause 4.3 below) shall continue during any period of garden leave.

2.4 Subject to clause 11.1 below (pursuant to which the Company reserves the right to terminate the Employment without notice or payment in lieu of notice), the Company reserves the right, at any time, at its sole discretion, to terminate the Employment without notice by making a payment to the Executive equivalent to:

2.4.1 18 months' salary;

2.4.2 any accrued but unpaid bonus for the financial year prior to the year in which the Employment terminates; and

2.4.3 pro-rata bonus for the year in which the Employment terminates, which shall be considered (and paid) at the same time that bonuses are considered (and paid) for other senior executives for the relevant financial year;

(together the “Severance Payment”). If payable, the Severance Payment will be paid to the Executive as a lump sum, less statutory deductions, within 28 days of the date the Employment ends (save in respect of any bonus payable under clause 2.4.3 above, which if payable, will be paid as set out in clause 2.4.3 above). It is agreed that the Severance Payment will not be reduced by reason of mitigation (and that the Executive shall have no obligation to seek to mitigate the Executive's loss) and the Executive shall not be required to pay to the Company or offset any sums received from any new employment or engagement. The Executive shall sign whatever documentation the Company may reasonably require in order to ensure that the Executive accepts the Severance Payment in full and final settlement of any claims the Executive may have against the Company or any Group Company.

2.5 The Executive agrees that, during any period of notice, the Executive will give to the Company all such assistance and co-operation in effecting a smooth and orderly handover of the Executive's duties as the Company may reasonably require.

2.6 The Company may, during any period of notice, appoint a person to perform the Executive’s duties jointly with the Executive, or during any period of suspension pursuant to clause 13 below, to perform all or some of the Executive’s duties in the Executive's place (and for the avoidance of doubt, the Company confirms that in such circumstances, the Executive shall not be responsible for the actions or omissions of such other person so appointed).

2.7 Upon termination of the Executive's employment by the Company pursuant to clause 2.4 above, by the Executive pursuant to clause 11.2 below or in the event of a Qualifying Non-Renewal pursuant to client 11.3 below, neither party shall make any public statement or announcement concerning such termination without prior good faith consultation with the other party.

3. **DUTIES AND LOCATION**

3.1 During the Employment:-

3.1.1 the Executive shall report to the CEO, Warner Music Group or the Chief Operating Officer of Warner Music Group (if such officer is appointed) as Warner Music Group may determine in its sole reasonable discretion, provided that the Executive and Co-Chair and Chief Operating Officer, Warner/Chappell Music, shall at all times report to the same senior executive officer. The Executive shall perform and observe such duties and restrictions and shall conduct and manage such of the affairs of the Company as may from time to time be reasonably required of the Executive by the Board and which are consistent with the Executive's status, seniority, skills and expertise and commensurate to the Executive's role;

3.1.2 the Executive shall at all times comply with the Executive's duties as a director as set out in any relevant legislation;

3.1.3 the Executive shall well and faithfully serve the Company to the best of the Executive's abilities and carry out the Executive's duties in a proper, competent and efficient manner and in willing co-operation with others;

3.1.4 the Executive shall use the Executive's reasonable endeavours to promote, and at all times act in the best interests of the Company and/or any Group Company;

3.1.5 the Executive shall notify the person to whom the Executive reports (or such person as is requested by the Company from time to time) immediately on becoming aware of any actual or potential data security breach and shall take such steps as may be reasonably required and/or reasonably requested by the Company to remedy such breach;

3.1.6 save as hereinafter provided, unless prevented by illness or accident and except during holidays provided for under clause 6 below, the Executive shall devote the whole of the Executive's time, attention and ability to the

Executive's duties under this Agreement during normal working hours and at such other times as may be reasonably required by the needs of the Company or any Group Company or the nature of the Executive's duties and the Executive shall not be entitled to receive any additional remuneration for work outside the Executive's normal working hours i.e. 9.30am to 6pm, Monday to Friday; and

3.1.7 except with the prior written consent of the Company, the Executive will not have any direct or indirect interest, whether as an agent, beneficiary, consultant, director, employee, partner, proprietor, shareholder, in any trade, business or occupation whatsoever other than the business of the Company or any Group Company, provided that the Executive shall not be precluded from personally, and for Executive's own account as a passive investor, investing or trading in real estate, stocks, bonds, securities, commodities, or other forms of investment for the Executive's own benefit, except that the Executive's rights hereafter to invest in any business or enterprise principally devoted to any activity which, at the time of such investment, is competitive to any business or enterprise of the Company or the subsidiaries or affiliates thereof, shall be limited to the purchase of not more than three percent (3%) of the issued and outstanding stock or other securities of a corporation listed on a national securities exchange, except with the Company's prior written consent, which shall not be unreasonably withheld. Further, the Executive shall be entitled to serve on the board of charitable organisations, provided that each appointment is approved in advance by the Company.

3.2 The Company may at its absolute discretion at any time and from time to time upon written notice to the Executive require the Executive to take as soon as practicable all steps necessary to fully and effectively relinquish the whole or any part of any interest in respect of the holding of which the Company has at any time given its prior written consent under clause 3.1.7 above if the Company or any Group Company reasonably considers that it is not in the best interests of the Company or any Group Company for the Executive to continue to hold that interest.

3.3 Regulation 4(1) of the Working Time Regulations 1998 ("WTR") provides that a worker's average working time, including overtime, must not exceed 48 hours for each seven day period (to be averaged over a period of 17 weeks) unless the worker agrees that this regulation will not apply to the Executive's employment. In accordance with Regulation 5 of the WTR, the Executive agrees that Regulation 4(1) will not apply to the Employment. At any time during the Employment, the Executive or the Company may

give three (3) months' prior written notice that the opt-out in this clause will cease to apply with effect from the expiry of said notice.

3.4 Prior to the Relocation, the Executive will work at the principal office of the Company or anywhere else within Greater London where the principal office of the Company is located. The Executive will be reasonably required to travel and work outside the UK from time to time (for the purposes of business visits) and it is anticipated and agreed that the Executive will spend an average of ten working days per month (calculated annually) of the Executive's time working from Warner/Chappell Music's office in Los Angeles, California. When the Executive is working from Warner/Chappell Music's offices in Los Angeles, California in accordance with this clause 3.4, the Executive will be provided with an office and assistant services will also be provided to the Executive (and for the avoidance of doubt, the Executive shall have a dedicated assistant in the UK whilst the Executive is based in the UK but will not have a dedicated assistant in Los Angeles, California until the Relocation, when a dedicated assistant will be appointed in Los Angeles, California). For the avoidance of doubt, whilst the Executive is based in the United Kingdom, he will not be required to spend more than 183 days per year in the United States.

4. REMUNERATION AND EXPENSES

4.1 Subject to clause 4.9 below, the Company shall pay and the Executive shall accept a salary at the rate of £1,365,000 per annum, such salary to accrue from day to day and to be paid less statutory and voluntary deductions by equal monthly instalments in arrears on or about the last day of every month by bank transfer or by cheque at the Company's option.

4.2 The Company agrees to review the Executive's salary and bonus target in good faith no later than three (3) years after the commencement of the Executive's employment with the Company, provided that any increase of the Executive's salary or bonus target shall remain in the Company's sole discretion and the Company shall have no obligation to increase the Executive's salary or bonus target at such time.

4.3 The Executive may be eligible, at the sole discretion of the Company, to receive an annual bonus in respect of each financial year completed during the Employment (and a pro-rata bonus for the financial year in which the Executive joins the Company). The Company's financial year is currently 1 October to 30 September, but is subject to change at the Company's discretion. The Executive's "target" bonus will be £1,365,000 ("Target Bonus") although depending on performance the actual bonus award may be either more or less than the Target Bonus at the Company's sole discretion. The criteria to be

achieved in each year for the Target Bonus level to be met will be based on factors such as Warner/Chappell Music's, Warner Music Group's and the Executive's performance and will be notified to the Executive each year. Subject to clause 2.4 above, no bonus, including for the avoidance of doubt any alleged pro rata entitlement to bonus, will be payable if, on the bonus payment date, the Executive is no longer employed by the Company or any Group Company or has given or received notice to terminate the Employment save for any accrued but unpaid bonus due in respect of any previous financial year. Any bonus will be paid less statutory deductions.

4.4 The Executive will be paid a sign-on bonus of £136,500, less statutory deductions, which will be paid in the first available payroll after the Commencement Date.

4.5 The Executive shall be reimbursed all reasonable expenses properly and necessarily incurred by the Executive in the performance of the Executive's duties upon production of vouchers in respect of them or if vouchers are not readily available upon other evidence satisfactory to the Company of payment of such expenses, provided that such expenses shall be subject to the Company's normal policy and budgetary disciplines, as detailed in the Company's Travel and Entertainment Policy as amended from time to time. In relation to international flights, it is agreed that in exceptional circumstances and where business needs so require, the Executive will be eligible to travel first class, provided that this is approved in advance by the CEO, Warner Music Group.

4.6 The Executive will be provided with a mobile telephone (and laptop) with internet access and email facility and the Company will meet all rental, replacement, maintenance and call charges reasonably incurred.

4.7 The Company retains the express right to deduct from time to time during the Employment any overpayments or advances or any other sums due from the Executive to the Company or any Group Company from any monies due to the Executive, provided that the Company shall give the Executive seven days prior notice of any such deduction.

4.8 If, during the Term, Warner Music Group establishes a new long-term incentive plan or programme (a "New LTIP") in which executives of the Warner Music Group or the Company at the Executive's level are eligible to participate, the Warner Music Group shall, in good faith, offer the Executive the opportunity to participate in such New LTIP in accordance with the terms and conditions or such plan or programme.

4.9 The Company has agreed with the Executive that the Executive's annual salary (in clause 4.1 above) will be $1,750,000, the Executive's Target Bonus (in clause 4.3 above) will be $1,750,000, the sign-on bonus (in clause 4.4 above) will be $175,000 and the maximum for the Relocation costs (in clause 5.8 below) shall be $300,000. For the

purposes of the Employment (that is, under this Agreement), these sums will be paid in pounds sterling and it is agreed that these numbers have therefore been converted to pounds sterling. The Company confirms that it will review the exchange rate on a quarterly basis, acting in good faith, and will adjust the amount payable in pounds sterling in clauses 4.1 above and clause 4.3 above of this Agreement) upwards or downwards if the previous exchange rate used has become materially (that is, ignoring de minimis differences) unfavourable or favourable to the Executive, taking into account the average daily exchange rate over the previous quarter, provided always that it is agreed that the Executive will not in any event be paid more than the agreed dollar amounts (as set out in this clause 4.9).

4.10 This Agreement is intended to be exempt from or comply with Section 409A of the (US) Internal Revenue Code of 1986, as amended (the "Code") and any related regulations or other pronouncements thereunder (collectively, "Section 409A") and will be so interpreted. Amounts payable under this Agreement shall be deemed not to be a "deferral of compensation" subject to Section 409A to the extent provided in the exceptions set forth in (US) Treas. Reg. Section 1.409A-1(b)(4) ("short-term deferrals") and (US) Treas. Reg. Section 1.409A-1(b)(9) ("separation pay plans") and other applicable provisions of (US) Treas. Reg. Section 1.409A-1 to A-6. To the extent section 409A is applicable, references under this Agreement to a termination of the Employment shall be deemed to refer to the date upon which the Executive has experienced a "separation from service" within the meaning of Section 409A. Notwithstanding anything herein to the contrary, if any payments of money or other benefits due to the Executive hereunder could cause the application of an accelerated or additional tax under Section 409A, such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Section 409A, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner, determined by the Company, that does not cause such an accelerated or additional tax. To the extent any reimbursements or in-kind benefits due to the Executive under this Agreement constitute "deferred compensation" under Section 409A, any such reimbursements or in-kind benefits shall be paid to the Executive in a manner consistent with (US) Treas. Reg. Section 1.409A-3(i)(1)(iv). Each payment made under this Agreement (including each installment of any payment to be made in two or more installments), shall be designated and treated as a "separate payment" within the meaning of Section 409A.

5. ADDITIONAL BENEFITS

5.1 Subject to the rules and eligibility requirements of the scheme from time to time in force, the Executive will be covered by life assurance of four times annual basic salary, subject to HM Revenue & Customs limits.

5.2 Subject to the rules and eligibility requirements of the scheme from time to time in force, the Executive, the Executive's partner and the Executive's dependent children (determined in accordance with the scheme rules) are entitled to Company paid private and dental medical insurance. Full details will be sent to the Executive upon registration with the scheme.

5.3 Subject to the rules and eligibility requirements of the scheme from time to time in force and to the Executive's health not being such as to prevent the Company from being able to obtain cover on reasonable terms, the Executive will be eligible to participate in any disability benefits scheme from time to time operated by the Company, subject to the Executive qualifying in accordance with its rules. The provision of disability benefits is without prejudice to the Company's right to terminate the Employment pursuant to this Agreement or obligations to make payments to the Executive in such event.

5.4 It is acknowledged that the Executive has applied for Fixed Protection and the Executive has confirmed that the Executive is not able to be a member of the Company pension scheme. The Executive therefore confirms that he will opt-out of the Company pension scheme when invited to join by reason of auto-enrolment rules. It is therefore agreed that the Company will pay to the Executive a sum of £20,000 per annum in lieu of the Company contribution to the pension scheme. This will be paid as a cash allowance each month, less statutory deductions, provided always that the overall cost to the Company of the cash allowance should be no more than the cost that it would have incurred had the Company pension contributions continued (and in particular, taking into account employer's national insurance payable on the cash sum, which the Company shall be entitled to deduct from the sums paid to the Executive under this clause). In the event that as a matter of policy such cash allowance in lieu of pension is increased generally by the Company for senior executives, the Executive will be entitled to benefit from such increase.

5.5 The Company will pay the Executive an annual car allowance of £15,000 per annum. This is a taxable benefit. The Executive will receive this allowance monthly at the rate of £1,250 per month, less statutory deductions, with his salary payment. The car allowance is made on the understanding that the sum will cover the following:

5.5.1 to insure the Executive's vehicle to cover business use;

5.5.2 the cost of the maintenance and servicing of the Executive's vehicle;

5.5.3 the cost of accident breakdown cover and an alternative vehicle if the Executive's car is off the road for whatever reason; and

5.5.4 all petrol for private use (including travelling between home and office).

Petrol expenses for business use may be reclaimed at the rate of 45p per mile.

In line with the Company's right to amend the car scheme, the Company also reserves the right to withdraw this benefit with reasonable notice provided that the Company shall provide the Executive with a replacement scheme of an equivalent level of benefit (to the Executive).

5.6 The Executive will be provided (at the Company's cost) with a car parking space for the Executive's use close to the Company's principal office.

5.7 The Executive shall be eligible to benefit from such additional employee benefit schemes as are offered to other Company executives of equivalent status and as are detailed to the Executive by the Company hereafter.

5.8 The Company will pay directly to the provider or reimburse to the Executive the Executive's reasonable costs in connection with the Relocation, in accordance with its policy from time to time in force and subject to a maximum net contribution of £234,000 to be divided in the Company's discretion (acting reasonably) between the relevant categories in the Company's policy (as set out below) such that if costs are not incurred by the Executive in respect of one category, they cannot be used against another category without the Company's prior consent ("the Relocation Costs"). Such assistance shall include school search assistance, two trips to Los Angeles for the Executive, the Executive's partner and dependent children to search for housing and temporary accommodation for a reasonable period prior to the Executive moving into the Executive's new home, shipping of household goods, reasonable travel associated with the Relocation, home sale assistance (if required) in respect of the Executive's main residence in the UK and home purchase assistance in or around the greater metropolitan Los Angeles area subject to production by the Executive of proof of purchase where appropriate and subject to the Executive using the Company's provider, where the Company so requests. The Company will gross up the Relocation Costs such that the Executive is left with an amount, which after payment of tax and national insurance and/or social security costs, is equivalent to the Relocation Costs. Further, it is agreed that if the Executive gives notice (other than as a result of a fundamental breach of the terms of this Agreement by the Company, which entitles the Executive to resign without notice and claim constructive dismissal) or the Executive is dismissed pursuant to clause 11.1 below, the Executive will promptly repay to the Company an amount equal to (i) 100% of the Relocation Costs, together with the amount of any gross up on the Relocation Costs paid by the Company, if the Employment ends prior to the first anniversary of the

Relocation Date; or (ii) 50% of the Relocation Costs, together with the amount of any gross up on the Relocation Costs paid by the Company, if the Employment ends on or after the first anniversary of the Relocation Date but prior to the second anniversary of the Relocation Date.

5.9 The Company shall provide reasonable professional assistance to the Executive in obtaining and maintaining the appropriate work permit and/or visa for the Executive in the USA and visas for the Executive's partner and dependent children provided always that if the Executive gives notice (other than as a result of a fundamental breach of the terms of this Agreement by the Company, which entitles the Executive to resign without notice and claim constructive dismissal) or the Executive is dismissed pursuant to clause 11.1 below a) before the legal and administrative process in relation to the work permit and/or visas has been initiated by the Company, the Company shall be under no obligation to obtain a work permit and/or visas for the Executive, the Executive's partner and/or the Executive's dependent children and/or to pay any fees associated with such process and the Executive shall be solely responsible for obtaining such work permit and/or visas; or b) if the legal and administrative process has been initiated as at the date that the Executive so resigns or is terminated (pursuant to clause 11.1 below), the Company shall cease providing such assistance and the Executive will be solely responsible for maintaining and/or for any fees for the work permit and/or visa for the Executive in the USA and visas for the Executive's partner and dependent children. The Executive shall not be in breach of this Agreement and shall not be required to proceed with the Relocation if the Executive, acting reasonably and in good faith, is unable to obtain and maintain the appropriate US work permits and/or visas for the Executive and the Executive's partner and dependent children.

5.10 During the Term and for one year after the Term, and subject to the Executive using an advisor or advisors nominated by the Company (acting reasonably and in good faith), the Company will pay the Executive’s reasonable accountancy costs incurred in each year in respect of the preparation of the Executive’s annual tax return in the UK and the United States of America.

5.11 In addition, the Company will, subject to the Executive using an advisor or advisors nominated by Company (acting reasonably and in good faith), pay the Executive's reasonable costs in relation to Executive’s tax planning relating to the Executive becoming a taxpayer in both the UK and in the Unites States of America.

5.12 The Company will provide assistance to the Executive with the filing of the Executive's tax returns in each year in the UK and US, so long as the Executive uses the Company's provider.

5.13 The Company confirms that it has Directors' and Officers' Liability insurance in place, which will cover the Executive in respect of any directorship held by the Executive in the Company or any Group Company and for six years following the termination of his employment, subject always to the terms of the policy from time to time in force and subject to the Company being able to obtain such insurance at a reasonable cost. In the event that it becomes too expensive to maintain such cover (and it is withdrawn from other Company executives at a similar level to the Executive at the same time), the Company shall consult with the Executive in good faith as to whether the Company should provide an indemnity to the Executive, in lieu of such insurance.

5.14 The Company confirms that the Executive will be provided with an executive assistant of the Executive's choosing (acting in good faith and in accordance with the Company's policies) to assist the Executive in performing the Executive's duties under this Agreement.

6. **HOLIDAYS AND HOLIDAY PAY**

6.1 In addition to all UK bank and other public holidays, the Executive shall be entitled to 27 working days' holiday during each calendar year. The Company may at its sole discretion close its offices between December 24 and January 1 and any such days not being public holidays shall be deducted from the Executive's holiday entitlement. Holiday is to be taken at such time or times as is convenient to the Company's business and as approved by the Board, such consent not to be unreasonably withheld.

6.2 During the calendar years in which the Employment commences and terminates, the Executive shall be entitled to such annual holiday entitlement as accrued under the Company's annual holiday policy, provided that in the event of the Employment being terminated by the Company as a result of the Executive's gross misconduct the Executive shall not be entitled, if otherwise appropriate, to salary in lieu of any outstanding holiday entitlement, save as required by law.

7. **ILLNESS/INCAPACITY**

7.1 Subject to the terms of any critical illness policy in place, if the Executive is absent through illness, accident or other incapacity the Executive, or someone acting for the Executive, shall advise the Company in accordance with the policies set forth in its Employee Handbook. Provided that the Executive complies with such policies and without prejudice to the Company's right to terminate this Agreement under clause 2 above and 11 below, the Executive shall be entitled to the Executive's salary at the full rate for up to 180 working days' continuous absence or periods of absence totalling 180 working days in any period of 12 months and thereafter the salary shall be payable at

such rate (if any) as the Company shall in its discretion allow, provided that there shall be deducted from any salary paid or payable under this clause 7.1 any Statutory Sick Pay, Social Security, Sickness, Insurance or other benefits recoverable by the Executive (whether or not recovered). The Company confirms that it will comply with the Access to Medical Reports Act 1988.

7.2 For Statutory Sick Pay purposes, the Executive's qualifying days shall be the Executive's normal working days.

8. **DISMISSAL AND DISCIPLINARY RULES AND GRIEVANCE PROCEDURES**

The dismissal, disciplinary and grievance procedures applying to the Employment may be found in the Company's Employee Handbook. If the Executive is dissatisfied with a disciplinary decision relating to the Executive or any decision to dismiss the Executive, the Executive should apply in accordance with the procedure set out in the company's dismissal and disciplinary policy in writing to Warner Music Group's EVP, Human Resources. If the Executive wishes to seek redress of any grievance relating to the Employment, the Executive should apply in accordance with the procedure set out in the Company's grievance procedure in writing to Warner Music Group's EVP, Human Resources. Further details are given in the relevant procedures, which for the avoidance of doubt do not form part of the Executive's terms and conditions of Employment.

9. **RESTRICTIVE COVENANTS**

9.1 During the Employment and for a period of 6 (six) months following its termination, the Executive will not, in competition with the Company, either directly or indirectly, without the prior written consent of the Company, act as a consultant, employee or officer or in any other capacity or be otherwise interested in (save that the Executive may hold up to 5% of any class of securities quoted or dealt in on a recognised investment exchange or 20% of any class of securities not so dealt) any Competitive Entity. For the purposes of this clause 9.1, "Competitive Entity" shall mean any business which, at the date of the termination of the Employment, competes or is actively preparing to compete with any business carried on by the Company or any Group Company in which the Executive has been materially involved during the 12 months prior to the termination of the Employment.

9.2 During the Employment and for a period of 12 months after its termination, in connection with the carrying on of any business similar to the business of the Company or any Group Company, either on the Executive's own behalf or on behalf of any other person, firm or entity, the Executive will not directly or indirectly solicit or interfere with or endeavour to entice away from the Company or any Group Company any Key Employee.

For these purposes, “Key Employee” means any Company or any Group Company employee working (i) in a management capacity; (ii) in an A&R capacity (excluding A&R scouts or junior or clerical staff); or (iii) in sales or marketing (excluding junior or clerical staff)], and with whom the Executive had material dealings during the 12 month period prior to the termination of the Employment.

9.3 During the Employment and for a period of 12 months after its termination, in connection with the carrying on of any business similar to the business of the Company or any Group Company, either on the Executive’s own behalf or on behalf of any other person, firm or entity, the Executive will not directly or indirectly solicit or interfere with or endeavour to entice away from the Company or any Group Company any Client. For these purposes, “Client” means any artist (including a duo or group), producer, publisher, composer or songwriter exclusively contracted to provide services to the Company or any Group Company or where such contract was being negotiated with the Company or any Group Company and with whom the Executive had material dealings during the 12 month period prior to the termination of the Employment.

9.4 The duration of the above restrictions will be reduced by any period of garden leave (as defined at clause 2.2 above). It is agreed that the Executive will not be placed on garden leave for a period or periods in aggregate exceeding six months.

9.5 Whilst the parties acknowledge and agree that each of the restrictions contained in this clause 9 is reasonable in all the circumstances, it is agreed that if any one or more of such restrictions either taken by itself or themselves together, are adjudged to go beyond what is reasonable in all the circumstances for the protection of the legitimate interests of the Company or any Group Company but would be adjudged reasonable if any particular restriction or restrictions were deleted or limited in a particular manner then the restrictions set out in this clause 9 will apply with such deletions, restrictions or limitation as the case may be.

9.6 The Executive agrees that each of the restrictions set out in this clause 9 constitute entirely separate, severable and independent restrictions on the Executive. The Executive acknowledges that the Executive has had the opportunity to receive independent legal advice on the terms and effect of the provisions of this Agreement, including the restrictions above.

10. CONFIDENTIALITY

10.1 Without prejudice to any other duty implied by law or equity, the Executive shall not during the Employment (except in the proper course of the Executive's duties) nor at any time after the termination of this Agreement utilise for the Executive's own purposes

or divulge or publish to any person whomsoever or otherwise make use of any trade secret or any other confidential information concerning the Company or any Group Company including without limitation relating to its or their business, human resources function, management or finances of any of its or their dealings, transactions, affairs, artists, producers, composers, songwriters, clients, suppliers, agents, employees or consultants which may have come to the Executive's knowledge during or in the course of the Employment with the Company or any Group Company (whether prior to the commencement of this Agreement or not) and shall use the Executive's reasonable endeavours (but not so as to personally incur any costs) to prevent the publication or disclosure by others of any such trade secret or confidential information, provided that the foregoing shall not apply to confidential information which comes into the public domain otherwise than as a result of an unauthorised disclosure by the Executive and/or information which does not belong to the Company but rather, forms part of the Executive's skill and knowledge or as may be reasonably necessary for the Executive to take advice from the Executive's professional advisers (provided always that the Executive procures that such professional advisers comply with the terms of this clause 10.1) or as may be required by law.

10.2 Nothing in this clause 10 shall prevent the Executive making a “permitted disclosure” in accordance with the Employment Rights Act 1996 (as amended by the Public Interest Disclosure Act 1998).

11. **TERMINATION IN SPECIFIC CASES**

11.1 Without prejudice to any remedy which it may have against the Executive for the breach or non-performance of any of the provisions of this Agreement, the Company may terminate this Agreement at any time without notice or pay in lieu of notice for "Cause" as set out below:

11.1.1 if the Executive shall be in serious or repeated breach of any of the Executive's material obligations under this Agreement, provided that if such breach (or breaches) is capable of cure, the Executive has first received a formal notice in writing in respect of a previous breach(es) and been given a reasonable opportunity to cure such breach(es);

11.1.2 if the Executive shall refuse to carry out any lawful and reasonable order given to the Executive in the course of the Employment or shall fail diligently to attend to any of the Executive's duties, provided always that if such refusal or failure is capable of cure, the Executive has first received a formal notice

in writing in respect of such refusal or failure and has been given a reasonable opportunity to correct such refusal or failure;

11.1.3 if the Executive commits any financially dishonest or fraudulent act in relation to the Company or any Group Company;

11.1.4 if the Executive shall be convicted of any criminal offence which is punishable by imprisonment (other than a road traffic offence for which a penalty of imprisonment is not imposed);

11.1.5 if the Executive is guilty of gross misconduct or of any other conduct which brings or is likely to bring serious professional discredit to the Company or any Group Company or to the Executive;

11.1.6 if the Executive has failed to promptly report a serious data security breach in breach of the Company's data protection policy from time to time in force of which the Executive is aware;

11.1.7 notwithstanding the actual or expected provision of disability benefits, if the Executive has at any time become or is unable properly to perform the Executive's duties under this Agreement by reason of ill-health or accident either for a continuous period of 26 weeks or for periods aggregating 26 weeks in any consecutive period of 52 weeks, provided always that the Company shall not be entitled to terminate the Executive's employment under this clause 11.1.7 if the Executive is in receipt (or likely to be in receipt in the near future) of payment from a permanent health or similar scheme provided by the Company and such termination would disentitle him from receiving such benefits;

11.1.8 notwithstanding the actual or expected provision of disability benefits, if the Executive shall become of unsound mind or a patient for the purpose of any statute relating to mental health, provided always that the Company shall not be entitled to terminate the Executive's employment under this clause 11.1.8 if the Executive is in receipt (or likely to be in receipt in the near future) of payment from a permanent health or similar scheme provided by the Company and such termination would disentitle him from receiving such benefits;

11.1.9 if a petition or application for an order in bankruptcy (including for a voluntary arrangement) is presented by or against the Executive or any person

(including the Executive) becomes entitled to petition or apply for any such order;

11.1.10 if the Executive shall have a disqualification order (as defined in Section 1 of the Directors Disqualification Act 1986) made against the Executive or otherwise becomes prohibited by law from being a company director; and/or

11.1.11 if the Executive resigns of the Executive's own choice as a director of the Company or is removed as a director by resolution of the Board of shareholders of the Company.

11.2 For purposes of this clause 11.2, the Company shall be in breach of its obligations to the Executive under this Agreement if there shall have occurred any of the following events (each such event being referred to as a “Good Reason”): (A) a material reduction in the Executive’s title, authority or responsibilities as set out in clause 1.1 above has been put into effect; (B) the Company fails to pay to the Executive any monies due under this Agreement in accordance with applicable law; (C) the Company requires the Executive to relocate the Executive’s primary residence outside of Greater London in order to perform the Executive’s duties to the Company under this Agreement (other than requiring the Executive to proceed with the Relocation); (D) the Executive shall have been required to report to anyone other than as provided in clause 3.1.1 above; (E) the Company assigns its rights and obligations under this Agreement in contravention of the provisions of clause 14 below.

The Executive may exercise his right to terminate the Employment and this Agreement for Good Reason pursuant to this clause 11.2 by giving notice to the Company in writing specifying the Good Reason for termination within ninety (90) days after the occurrence of any such event constituting Good Reason, otherwise the Executive’s right to terminate the Employment by reason of the occurrence of such event shall expire and shall be deemed to have permanently lapsed (but not with respect to the subsequent occurrence of the same or similar or any other Good Reason). Any such termination in compliance with the provisions of this clause 11.2 shall be effective thirty (30) days after the date of the Executive’s written notice of termination, except that if the Company shall cure such specified Good Reason within such thirty-day period, the Executive shall not be entitled to terminate the Employment by reason of such specified Good Reason and the notice of termination given by the Executive shall be null and void and of no effect whatsoever. The Company shall not be entitled to any cure rights provided under this clause for or with respect to its second or subsequent commission of the same Good Reason within a twelve (12) month period.

If this Agreement is terminated by the Executive for Good Reason, the Company shall pay to the Executive the Severance Payment in accordance with clause 2.4 above.

11.3 If the event of a “Qualifying Non-Renewal”, the Company shall pay to the Executive the Severance Payment set out in clause 2.4 above, save that the amount of salary payable under clause 2.4.1 above shall be 12 months (not 18 months) and in relation to clause 2.4.3 above, the Company shall give good faith consideration only to payment of a pro-rata bonus in respect of the year of termination.

A “Qualifying Non-renewal” shall have occurred in the event that, at the end of the Term: (i) the Company declines to offer the Executive continued employment with the Company or one of its affiliates or (ii) the Company offers the Executive continued employment with the Company or one of its affiliates for a term of less than an additional three (3) years or with a title or salary or target bonus amount lower than the Executive’s title, salary or target bonus amount, respectively, as in effect on the last day of the Term, and the Executive declines such offer and elects to terminate the Employment with the Company.

11.4 On the termination of the Employment for whatever reason, the Executive shall immediately resign from all offices and directorships held by the Executive in the Company or in any Group Company.

11.5 For the avoidance of doubt, any termination of the Employment shall be without prejudice to the Executive's entitlement to receive any salary and bonus (if any) accrued but unpaid as at the date of termination, to reimbursement of any expenses (in accordance with clause 4.4 above) and to any entitlement pursuant to clause 2.4 above.

12. **ASSIGNMENT OF COPYRIGHT & OTHER INTELLECTUAL PROPERTY RIGHTS**

12.1 If at any time during the Employment (whether or not during working hours or using the Company premises or resources, and whether or not recorded in material form), the Executive discovers, or participates in the discovery of, any invention or improvement upon or addition to an invention which relates to, is applicable to or reasonably capable of being used in the business carried on by the Company or any Group Company ("Invention"), the Executive shall immediately give to the Company full written details of the Invention. The Executive shall keep confidential all information relating to the Invention.

12.2 The Executive acknowledges that all intellectual property rights in:

12.2.1 Inventions and all materials embodying them; and

12.2.2 all other materials whatsoever and in whatever form,

prepared by or contributed to by the Executive during the Employment shall automatically, on creation, belong to the Company absolutely to the fullest extent permitted by law. To the extent that any intellectual property rights do not vest in the Company automatically, the Executive holds them on trust for the Company. For the purposes of this Agreement, intellectual property rights means patents, rights to inventions, copyright and related rights, trade marks, trade names and domain names, rights in get-up, goodwill and the right to sue for passing off, unfair competition rights, rights in designs, rights in computer software, database rights, topography rights, rights to use and preserve the confidentiality of information (including know-how and trade secrets) and any other intellectual property rights, in each case whether registered or unregistered and including all applications (or rights to apply) for and be granted, renewals or extensions of, and rights to claim priority from, such rights and all similar or equivalent rights or forms of protection which subsist or will subsist now or in the future in any part of the world.)

12.3 The Executive hereby irrevocably waives all moral rights under the Copyright, Designs and Patents Act 1988 (and all similar rights in other jurisdictions) which the Executive has or will have in any existing or future works and materials referred to in this clause 12.

12.4 The Executive agrees promptly at any time, whether during or after the Employment, at the reasonable cost of the Company, to execute all documents and do all acts as may, in the opinion of the Company, be necessary to give effect to this clause 12.

13. **SUSPENSION**

The Company retains the right to suspend the Executive from the Employment on full salary at any time for a reasonable period (which will usually not exceed 28 days) to investigate any matter in respect of potential serious or gross misconduct in which the Executive is implicated or involved (whether directly or indirectly), based on the Company's reasonable belief, acting in good faith.

14. **ASSIGNMENT**

The benefit and burden of this Agreement (without alteration or amendment) may be assigned by the Company to any Group Company, provided that the Company shall remain liable hereunder unless and until the relevant Group Company enters into a direct covenant to perform the Company's obligations hereunder and the Executive agrees to execute any consent required of the Executive for the purposes of such

assignment. References in this Agreement to the Company shall, unless the context otherwise requires, include references to any such assignee for the time being. For the avoidance of doubt, this Agreement (including all rights under it) is not assignable by the Executive.

15. **EXECUTIVE'S OBLIGATIONS ON TERMINATION OF THE EMPLOYMENT**

Upon the termination of the Employment, the Executive shall:-

15.1 forthwith deliver up to the Company all correspondence, drawings, documents and other papers together with all other property belonging to the Company or any Group Company; and

15.2 not at any time represent himself still to be connected with the Company or any Group Company.

16. **EFFECT OF TERMINATION**

The termination of this Agreement shall not operate to affect such of its provisions as are expressed to operate or have effect after such expiration or determination and shall be without prejudice to any other rights or remedies of the parties.

17. **COLLECTION & EXCHANGE OF PERSONAL INFORMATION**

17.1 The Executive acknowledges that the Company will from time to time process data that relates to the Executive for the purposes of the administration and management of the Company, in order to comply with applicable procedures, laws and regulations, and for other legitimate purposes.

17.2 The Executive agrees to comply with the Company's data protection policy when processing other people's data.

18. **SEARCH**

Solely in the event that the Company (acting in good faith) has good reason to believe that the Executive is acting in breach of the material terms of this Agreement, the Company reserves the right to search the Executive's person, vehicle and property while on or departing from the Company's premises.

19. **WRITTEN NOTICE**

Any written notice required to be served under or pursuant to this Agreement shall be deemed duly served if in the case of notice to the Company it is sent by recorded delivery

to or left at the Company's registered office and in the case of notice to the Executive if handed to the Executive personally or sent by recorded delivery or ordinary first class letter post to the Executive's last known residential address in the United Kingdom with copies sent to Carroll, Guido & Groffman, 5 Columbus Circle, 20th Floor, NY 10019, attn: Michael Guido, Esq. and to Russells, Yalding House, 152-156 Great Portland Street, London W1W 5QA, attn: Gavin Maude and any notices so sent shall be deemed to have been received and served when the same should have been received in the ordinary course of such delivery or post.

20. **INTRANET**

Company policies applying to the Executive are available for inspection on the Company's intranet and the general terms and conditions of employment appearing therein shall apply to the Executive except where the terms contained on the Company's intranet are inconsistent with the provisions of this Agreement, when the provisions of this Agreement shall apply.

21. **EMAIL/INTERNET POLICY & PROCEDURE**

The Executive agrees to become familiar with and comply fully with the terms of the Company's E-mail and Internet Policy and Procedure as amended from time to time and the Executive acknowledges that action such as monitoring, intercepting, reviewing and/or accessing any communication facilities provided by the Company or any Group Company that the Executive may use during the Employment is necessary for the Company's or any Group Company's lawful business practice.

22. **WMG CODE OF CONDUCT**

The WMG Code of Conduct sets out the Company's commitment to carrying out business in a responsible manner. The Executive agrees to become familiar and adhere with the principles set forth in the WMG Code of Conduct, which the Company can amend from time to time.

23. **WRITTEN PARTICULARS**

This Agreement contains the written particulars of employment which the Executive is entitled to receive under the provisions of Part 1 of the Employment Rights Act 1996.

24. **POWER OF ATTORNEY**

The Executive hereby irrevocably and by way of security appoints each other director of the Company from time to time, jointly and severally, to be the Executive's attorney

in the Executive's name and on the Executive's behalf and as the Executive's act and deed to sign, execute and do all acts, things and documents which the Executive is obliged to execute and do under the provisions of this Agreement (including, but not limited to clauses 2.2.4, 11.4 and 12.4 above) and the Executive hereby agrees immediately on the reasonable request of the Company to ratify and confirm all such acts, things and documents signed, executed or done in the pursuance of this power.

25. **PREVIOUS AGREEMENTS**

This Agreement (and the Agreement between Warner/Chappell Music, Inc. and the Executive of even date) contains the whole agreement and supersedes any previous written or oral agreement between the parties in relation to the matters dealt with in it.

26. **GOVERNING LAW AND JURISDICTION**

The validity, construction and performance of this Agreement and any claim, dispute or matter arising under or in connection with it or its enforceability will be governed by and construed in accordance with English law. Each party irrevocably submits to the non-exclusive jurisdiction of the English courts.

27. **DEFINITIONS**

For the purposes of this Agreement:

27.1 “Group Company” means any holding company of the Company and any subsidiary of the Company or of any such holding company each as defined by section 1159 Companies Act 2006, and references to “Group” shall be construed accordingly.

27.2 “Board” means the board of directors of the Company from time to time or any committee of the Board to which powers have been properly delegated, including without limitation a remuneration committee.

IN WITNESS whereof the duly authorised representative of the Company has hereunto set its hand and the Executive has hereunto set the Executive's hand the day and year first above written.

EXECUTED AS A DEED BY
WARNER/CHAPPELL MUSIC LIMITED acting by:

Director /s/ Roger D. Booker

Witness signature */s/ K. Logan*

Name *K. Logan*

Address *27 Wrights Lane*
London
W8 5SW

Occupation *Solicitor*

EXECUTED AND DELIVERED
AS A DEED by
GUY MOOT /s/ Guy Moot
in the presence of:

Witness signature */s/ Gavin Maude*

Name *Gavin Maude*

Address *Yalding House, 152-156 Great Portland St*
London W1W 5QA

Occupation *Solicitor*

COEX-
9.19

ACCEPTED AND AGREED INSOFAR AS IT CONCERNED
WARNER/CHAPPELL MUSIC INC. acting by:

Director /s/ Paul Robinson

Witness signature */s/ Maria Osherova*

Name *Maria Osherova*

Address *17 Pencombe Mews*
London W11 2RZ

Occupation *EVP HR*

Exhibit 10.21
3.9.2018

WARNER/CHAPPELL MUSIC, INC.
10585 Santa Monica Boulevard
Los Angeles, CA 90025

March 12, 2018

Carianne Marshall
c/o Gang, Tyre, Ramer & Brown
132 S. Rodeo Drive
Beverly Hills, CA 90212
Attn: Donald Passman, Esq.

Dear Carianne:

This letter, when signed by you and countersigned by us ("Company"), shall, subject to your successful completion of the employment application process (including, without limitation, completion of a criminal background investigation and reference checks) in accordance with Company's policy to the reasonable satisfaction of Company, constitute our agreement (the "Agreement") with respect to your employment with Company.

1. Title and Responsibilities: Your title shall be Chief Operating Officer. All employees of Company ("Personnel") in the following departments or functions shall report either directly to you or in an ascending chain of authority ending with you: (a) Global Catalog, (b) Creative Services, and (c) Songwriter-related Tech; provided that the foregoing Personnel reporting structure shall be subject to modification by mutual agreement of you and the senior executive officer to whom you report.

2. Term: The term of this Agreement (the "Term") shall commence on June 1, 2018 and end on May 31, 2023.

3. Compensation:

(a) Salary: During the Term, Company shall pay you a salary at the rate of $750,000 per annum.

(b) Annual Discretionary Bonus: With respect to each fiscal year of the Term, commencing with the fiscal year that begins October 1, 2017 and ends September 30, 2018 (i.e., the 2018 fiscal year), Company shall consider granting to you an annual bonus (or a pro rata portion thereof for a portion of such fiscal year). Your target bonus for each fiscal year of the Term shall be $300,000 (or a pro rata portion of such amount for a portion of a fiscal year), and the amount of any

annual bonus awarded to you shall be determined by Company in its sole discretion based on factors including the strength of your performance and the performance of Company and of Warner Music Group; provided that the amount of any annual bonus awarded to you may be higher or lower than the target amount. Annual discretionary bonuses or pro rata portions thereof, if any, payable to you pursuant to this Paragraph, shall each be paid to you not later than such time as bonuses with respect to the applicable fiscal year are paid to employees of Company generally.

(c) Execution Payment: As soon as practicable following the execution in full of this Agreement, Company shall pay to you a one-time lump sum payment in the amount of $15,000.

(d) Payment of Compensation: Compensation accruing to you during the Term shall be payable in accordance with the regular payroll practices of Company for employees at your level. You shall not be entitled to additional compensation for performing any services for Company's subsidiaries or affiliates.

4. Exclusivity: Your employment with Company shall be full-time and exclusive. During the Term you shall not render any services for others, or for your own account, in the field of entertainment or otherwise; provided, however, that you shall not be precluded from personally, and for your own account as a passive investor, investing or trading in real estate, stocks, bonds, securities, commodities, or other forms of investment for your own benefit, except that your rights hereafter to invest in any business or enterprise principally devoted to any activity which, at the time of such investment, is competitive to any business or enterprise of Company or the subsidiaries or affiliates thereof, shall be limited to the purchase of not more than two percent (2%) of the issued and outstanding stock or other securities of a corporation listed on a national securities exchange or traded in the over-the-counter market. In addition and notwithstanding the foregoing, to the extent such activities do not conflict or interfere with the performance of your duties hereunder, you shall not be precluded from maintaining your less than five percent (5%) passive ownership interest in Songs Music Publishing which currently only holds interests in a music supervision company (or, in the event Songs Music Publishing divests or otherwise spins off such music supervision company, a less than five percent (5%) passive ownership interest directly in such music supervision company) (the "Music Supervision Company"); provided further that (a) you shall not render any management or advisory services to the Music Supervision Company or Songs Music Publishing or to any of their respective affiliates (collectively, the "Music Parties") without the prior written consent of Warner Music Group's Conflicts Committee, and (b) other than in connection with pitching, negotiating and licensing the use of musical compositions from Company's catalog to the Music Supervision Company or its clients, (i) you shall not solicit, encourage, facilitate or participate in any business between Company, its subsidiaries or affiliates, or any of their respective artists or songwriters (collectively, the "WMG Parties"), on the one hand, and a Music

Party, on the other hand, without the prior written consent of Warner Music Group's Conflicts Committee, and (ii) you shall provide written notice to the senior executive officer to whom you report and the General Counsel of Warner Music Inc. in the event you become aware of any business or potential business between any WMG Party and any Music Party.

5.Reporting: You shall at all times report solely and directly to and work solely under the supervision of the Chairman and Chief Executive Officer of Company (currently, Jon Platt) or, in the absence of an officer of Company having such title, such senior executive officer of Company of comparable or higher stature as Company may designate from time to time, and shall perform such duties consistent with your position as you shall reasonably be directed to perform by such senior officers.

6.Place of Employment: The greater Los Angeles metropolitan area. You shall render services in the offices designated by Company at such location. You also agree to travel on temporary trips to such other place or places as may be required from time to time to perform your duties hereunder.

7.Travel and Entertainment Expenses: Company shall pay for reasonable expenses actually incurred, or reimburse you for reasonable expenses paid, by you during the Term in the performance of your services hereunder in accordance with Company's policy for executives at your level upon presentation of expense statements or vouchers or such other supporting information as Company may customarily require. You shall be entitled to travel in accordance with Company's policies for executives at your level, except that you shall be entitled to business class travel for flights even where Company's policies for executives at your level call for a lower class of travel.

8.Benefits: While you are employed hereunder, you shall be entitled to all fringe benefits generally accorded to employees of Company at your level from time to time, including medical health and accident, group insurance and similar benefits, provided that you are eligible under the general provisions of any applicable plan or program and Company continues to maintain such plan or program during the Term. You shall also be entitled to four (4) weeks of vacation (with pay) during each calendar year of the Term in accordance with Company's policies with respect to vacations for employees, which vacation shall be taken at reasonable times to be approved by Company.

9.Disability/Death: If you shall become physically or mentally incapacitated from performing your duties hereunder, and such incapacity shall continue for a period of five (5) consecutive months or more or for shorter periods aggregating five (5) months or more in any twelve-month period, Company shall have the right (before the termination of such incapacity), at its option, to terminate this Agreement with no consequence, except if such termination would be prohibited by law. Upon termination of this Agreement pursuant to the foregoing, you shall continue to remain employed by Company as an at-will employee. In the event your at-will employment with Company subsequently terminates, Company shall

pay to you the Basic Termination Payments (as defined below); and in the event such termination is by Company other than for Cause (as defined below), subject to your execution of a Release (as defined below) within the time period set forth in such Release, Company shall also pay to you the Prior Year Bonus and the Pro-Rata Bonus (each, as defined below). In the event of your death during the Term, this Agreement shall automatically terminate except that Company shall pay to your estate the Basic Termination Payments, the Prior Year Bonus and the Pro-Rata Bonus.

10. Termination by Company for Cause; Termination by You for Good Reason.

(a) Termination by Company for Cause: Company may at any time during the Term, by written notice, terminate your employment and this Agreement for Cause, such Cause to be specified in the notice of termination. Only the following acts shall constitute "Cause" hereunder: (i) any willful or intentional act or omission having the effect, which effect is reasonably foreseeable, of injuring, to an extent that is not de minimis, the reputation, business, business relationships or employment relationships of Company or its affiliates; (ii) conviction of, or plea of nolo contendere to, a misdemeanor involving theft, fraud, forgery, embezzlement or the sale or possession of illicit substances or a felony, unless prohibited by applicable law; (iii) breach of any material representation, warranty or covenant contained in this Agreement; (iv) violation of Company's written policies of which you are made aware, including those described in Paragraph 17(b), as determined by Company in good faith; and (v) repeated or continuous failure, neglect or refusal to perform your material duties hereunder. Notice of termination given to you by Company shall specify the reason(s) for such termination. In the case where a cause for termination described in clause (iii), (iv) or (v) above is susceptible of cure (as determined by Company in good faith), and such notice of termination is the first notice of termination given to you for such reason, if you fail to cure such Cause for termination to the reasonable satisfaction of Company within fifteen (15) business days after the date of such notice, termination shall be effective upon the expiration of such fifteen-business-day period, and if you cure such Cause within such fifteen-business-day period, such notice of termination shall be ineffective. In all other cases, notice of termination shall be effective on the date thereof. In the event of the termination of your employment pursuant to this Paragraph 10(a), this Agreement shall automatically terminate except that Company shall pay to you the Basic Termination Payments.

(b) Termination by You for Good Reason:

(i) For purposes of this Paragraph 10(b), Company shall be in breach of its obligations to you hereunder if there shall have occurred any of the following events (each such event being referred to as a "Good Reason"): (A) a material reduction in your title shall have been put into effect; (B) you shall have been required to report to anyone other than as provided in Paragraph 5 hereof; (C) Company fails to pay to you any monies due hereunder in accordance with

applicable law; (D) Company requires you to relocate your primary residence outside the greater Los Angeles metropolitan area in order to perform your duties to Company hereunder; or (E) Company assigns its rights and obligations under this Agreement in contravention of the provisions of Paragraph 17(e).

(ii) You may exercise your right to terminate your employment and this Agreement for Good Reason pursuant to this Paragraph 10(b) by notice given to Company in writing specifying the Good Reason for termination within sixty (60) days after the occurrence of any such event constituting Good Reason, otherwise your right to terminate your employment and this Agreement by reason of the occurrence of such event shall expire and shall be deemed to have permanently lapsed. Any such termination in compliance with the provisions of this Paragraph 10(b) shall be effective thirty (30) days after the date of your written notice of termination, except that if Company shall cure such specified Good Reason within such thirty-day period, you shall not be entitled to terminate your employment and this Agreement by reason of such specified Good Reason and the notice of termination given by you shall be null and void and of no effect whatsoever.

11. Consequences of Breach by Company or Non-renewal:

(a) In the event of a Special Termination (as defined below) of your employment, your sole remedy shall be that, subject to your execution of a Release, Company shall pay to you the Special Termination Payments (as defined below), and in the event of a Qualifying Non-renewal (as defined below), your sole remedy shall be that, subject to your execution of a Release, Company shall pay to you the Non-renewal Payments (as defined below); provided Company shall cease making Termination Payments (as defined below) if you do not deliver the signed Release within the time period set forth in the Release. In addition, in the event of a Special Termination or Qualifying Non-renewal, Company shall pay to you the Basic Termination Payments, and subject to your execution of a Release within the time period set forth in such Release, the Prior Year Bonus and Pro-Rata Bonus. Special Termination Payments and Non-renewal Payments are sometimes herein referred to as the "Termination Payments."

(b) The "Basic Termination Payments" shall mean any accrued but unpaid salary, accrued but unused vacation pay in accordance with Company policy, any unreimbursed expenses pursuant to Paragraph 7, plus any accrued and vested but unpaid benefits in accordance with Paragraph 8, in each case to the date on which your employment terminates (the "Termination Date"). Basic Termination Payments shall be paid to you in accordance with Company policy or in accordance with the terms of the applicable plan.

(c) A "Release" shall mean a mutual release agreement in Company's standard form as negotiated in good faith, which shall include (i) a release by you of Company from any and all claims which you may have relating to your employment with Company and the termination of such employment (excluding any indemnity claims to the extent set forth in Paragraph 15) and (ii) a release by

Company of you from any and all claims which Company may have relating to your employment with Company and the termination of such employment.

(d) A "Special Termination" shall have occurred in the event that (i) Company terminates your employment hereunder other than pursuant to Paragraph 9 or 10(a), or (ii) you terminate your employment pursuant to Paragraph 10(b).

(e) "Special Termination Payments" shall mean the greater of (i) the Severance Amount (as defined below) and (ii) an amount equal to fifteen (15) months' salary at the per annum salary rate payable to you hereunder as of the Termination Date.

(f) A "Qualifying Non-renewal" shall have occurred in the event that, at the end of the Term: (i) Company declines to offer you continued employment with Company or one of its affiliates or (ii) Company offers you continued employment with Company or one of its affiliates at a salary lower than your salary as in effect on the last day of the Term, and you decline such offer and elect to terminate your employment with Company.

(g) The "Non-renewal Payments" shall mean the amount of severance pay (the "Severance Amount") that would have been payable to you under Company policy as in effect on the Termination Date had you not been subject to an employment agreement with Company, which amount shall under no circumstance exceed $500,000.

(h) Any Termination Payments payable to you under Paragraph 11(e) or (g) shall be made by Company in accordance with its regular payroll practices by payment of such Termination Payments at the same per annum salary rate as was in effect as of the Termination Date for the applicable period as is necessary to cause the full amount due under such Paragraph to be paid (the "Payment Period"); provided that if the total Termination Payments payable to you exceed an amount equal to fifty-two weeks of your salary, then the Termination Payments payable to you shall be made in equal periodic payments to you (at such times as Company makes payroll payments to its employees generally) during the fifty-two-week period immediately following the date on which your employment terminates. In addition, such Termination Payments shall commence on the next possible pay cycle following the Termination Date; provided that Company shall cease making Termination Payments if you do not deliver the signed Release to Company within the time period set forth in the Release.

(i) In the event you elect not to execute and deliver a Release within the time period set forth therein in connection with a Special Termination or a Qualifying Non-renewal, Company shall only be obligated to pay to you the Basic Termination Payments. Following the delivery of an executed Release pursuant to this Paragraph 11, you shall have no duty to seek substitute employment, and Company shall have no right of offset against any amounts payable to you under

this Paragraph 11 with respect to any compensation or fees received by you from any employment obtained or consultancy arrangement entered into by you.

(j) In the event of a Special Termination or a Qualifying Non-renewal, during the period commencing immediately following the Termination Date and through the last day of the calendar month in which the Termination Date occurs (such period, the "Benefits Period"), Company shall continue to provide you and your eligible family members with medical health insurance coverage, including dental and vision insurance coverage under the group insurance plan maintained by Company ("Benefits Coverage") in accordance with the terms of the applicable plans, to the extent that you had elected for such coverage prior to the Termination Date. Following the Benefits Period, you may have the right, in accordance with and subject to the Consolidated Omnibus Budget Reconciliation Act, as amended ("COBRA"), at your expense, to elect to continue your and/or your dependents' Benefits Coverage for such additional period of time as is required under COBRA. Further information regarding COBRA coverage, including enrollment forms and premium quotations, shall be sent to you separately.

(k) In the event you resign from your employment hereunder prior to the expiration of the Term other than for Good Reason, without limitation of other rights or remedies available to Company, Company shall have no further obligations to you under this Agreement or otherwise, except for the Basic Termination Payments. In the event you resign from your employment upon or after the expiration of the Term (other than in connection with a Qualifying Non-renewal), Company shall have no further obligations to you under this Agreement or otherwise, except for the Basic Termination Payments and the Prior Year Bonus.

(l) The "Prior Year Bonus" shall mean any awarded but unpaid annual bonus pursuant to Paragraph 3(b) for the most recently completed fiscal year prior to the Termination Date.

(m) The "Pro-Rata Bonus" shall mean, with respect to the fiscal year in which the Termination Date occurs, a pro rata portion (based on the portion of such fiscal year during which you rendered services to Company) of an annual bonus for such year pursuant to Paragraph 3(b), determined in good faith by Company, taking into account factors including Company's discretionary annual bonus pool for such fiscal year, the strength of your performance and the performance of Company and of Warner Music Group.

12. Confidential Matters: You shall keep secret all confidential matters of Company and its affiliates (for purposes of Paragraphs 12 and 13 only, "Company"), and shall not disclose them to anyone outside of Company, either during or after your employment with Company, except (a) with Company's prior written consent; (b) as required by law or judicial process or as permitted by law for the purpose of reporting a violation of law; or (c) to your professional advisors to the extent reasonable and necessary. Company hereby informs you, and you hereby acknowledge, in accordance with 18 U.S.C. Section 1833(b), that you may not be

held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret where the disclosure (i) is made (A) in confidence to a federal, state, or local government official, either directly or indirectly, or to an attorney; and (B) solely for the purpose of reporting or investigating a suspected violation of law; or (ii) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. You shall deliver promptly to Company upon termination of your employment, or at any time as Company may request, all confidential memoranda, notes, records, reports and other documents (and all copies thereof) relating to the business of Company which you may then possess or have under your control; provided that you may retain your personal files (i.e., your files not related to Company) and a copy of your address book.

13. Non-Solicitation: While you are employed by Company and for a period of one year thereafter, you shall not, without the prior written consent of Company, directly or indirectly, as an employee, agent, consultant, partner, joint venturer, owner, officer, director, member of any other firm, partnership, corporation or other entity, or in any other capacity: (a) induce (or attempt to induce) a breach or disruption of the contractual relationship between Company (or a label distributed by Company) and any recording artist (including a duo or a group), publisher or songwriter (including a recording artist or songwriter who has contracted through a furnishing entity) ("Company Artist"); (b) use Company's trade secrets or confidential information to solicit, induce or encourage any individual who at the time is, or who within the one-year prior period was, a Company Artist to end its relationship with Company or to enter into an exclusive recording or music publishing agreement with any other party; or (c) solicit, induce or encourage any individual who at the time is, or who within the six-month prior period was, an employee of Company in the United States to leave his or her employment or to commence employment with any other party (excluding your then-current administrative assistant).

14. Results and Proceeds of Employment: You acknowledge that Company shall own all rights of every kind and character throughout the world in perpetuity in and to any material and/or ideas written, suggested or in any way created by you hereunder and all other results and proceeds of your services hereunder, including all copyrightable material created by you within the scope of your employment. You agree to execute and deliver to Company such assignments or other instruments as Company may require from time to time to evidence Company's ownership of the results and proceeds of your services.

15. Indemnity: Company agrees to indemnify you against expenses (including final judgments and amounts paid in settlement to which Company has consented in writing, which consent shall not be unreasonably withheld) in connection with litigation against you arising out of the performance of your duties hereunder; provided that: (a) the foregoing indemnity shall only apply to matters for which you perform your duties for Company in good faith and in a manner you reasonably believe to be in or not opposed to the best interests of Company and

not in contravention of the instructions of any senior officer of Company and (b) you shall have provided Company with prompt notice of the commencement of any such litigation. Company will provide defense counsel selected by Company. You agree to cooperate in connection with any such litigation.

16. Notices: All notices, requests, consents and other communications required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given if delivered personally or sent by prepaid courier, or mailed first-class, postage prepaid, by registered or certified mail, return receipt requested as follows:

TO YOU:	TO COMPANY:
Carianne Marshall Address on file with Company	Warner/Chappell Music, Inc. 10585 Santa Monica Boulevard Los Angeles, CA 90025 Attn: Vice President, Human Resources
With a copy to:	With a copy to:
Gang, Tyre, Ramer & Brown 132 S. Rodeo Drive Beverly Hills, CA 90212 Attn: Donald Passman, Esq.	Warner Music Inc. 1633 Broadway New York, NY 10019 Attn: General Counsel

Either you or Company may change the address to which notices are to be sent by giving written notice of such change of address to the other in the manner herein provided for giving notice.

17. Miscellaneous:

(a) You represent and warrant as follows: (i) you are free to enter into this Agreement and to perform each of the terms and covenants hereunder; (ii) you are not restricted or prohibited, contractually or otherwise, from entering into and performing this Agreement and that your execution of and performance under this Agreement is not a violation or breach of any other agreement; and (iii) you have not disclosed to Company or any officer or other affiliate of Company any proprietary information or trade secrets of any former employer or of your current employer (if applicable). You represent and warrant that your current employer has agreed to release you from any contractual commitments (other than with respect to use of confidential information) effective no later than the first day of the Term. Upon request of Company, you shall provide or have provided as of the date hereof, Company with a copy of any release document signed by your current employer. You further covenant that you shall not enter into any other agreements (including an extension or amendment of any agreement) that would restrict or prohibit you from entering into or performing under this Agreement.

(b) You acknowledge and agree that while you are employed hereunder you shall comply with Company's Code of Conduct (or any successor document) and

other corporate policies including the requirements of Company's compliance and ethics program, each as in effect from time to time, of which you are made aware.

(c) You acknowledge that services to be rendered by you under this Agreement are of a special, unique and intellectual character which gives them peculiar value, and that a breach or threatened breach of any provision of this Agreement (particularly, but without limitation, the provisions of Paragraphs 4, 12, 13 and 14), will cause Company immediate irreparable injury and damage which cannot be reasonably or adequately compensated in damages in an action at law. Accordingly, without limiting any right or remedy which Company may have in such event, you specifically agree that Company shall be entitled to seek injunctive relief to enforce and protect its rights under this Agreement. The provisions of this Paragraph 17(c) shall not be construed as a waiver by Company of any rights which Company may have to damages or any other remedy or by you as a waiver by you of any rights which you may have to offer fact-based defenses to any request made by Company for injunctive relief.

(d) This Agreement sets forth the entire agreement and understanding of the parties hereto, and supersedes and terminates any and all prior agreements, arrangements and understandings. No representation, promise or inducement has been made by either party that is not embodied in this Agreement, and neither party shall be bound by or liable for any alleged representation, promise or inducement not herein set forth. This Agreement may be executed in one or more counterparts, each of which when executed shall be deemed to be an original but all of which taken together shall constitute one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by facsimile transmission or by email shall be effective as delivery of a manually executed counterpart of this Agreement. If any provision of this Agreement or the application thereof is held to be wholly invalid, such invalidity shall not affect any other provisions or the application of any provision of this Agreement that can be given effect without the invalid provisions or application, and to this end the provisions of this Agreement are hereby declared to be severable.

(e) The provisions of this Agreement shall inure to the benefit of the parties hereto, their heirs, legal representatives, successors and permitted assigns. This Agreement, and your rights and obligations hereunder, may not be assigned by you. By operation of law or otherwise, Company may assign its rights, together with its obligations, hereunder in connection with any sale, transfer or other disposition of all or a substantial portion of the stock or assets of Company or any direct or indirect parent of Company.

(f) Nothing contained in this Agreement shall be construed to impose any obligation on Company to renew this Agreement. This Agreement may be amended, modified, superseded, canceled, renewed or extended, and the terms or covenants hereof may be waived, only by a written instrument executed by both of the parties hereto, or in the case of a waiver, by the party waiving compliance. Neither the continuation of employment nor any other conduct shall be deemed to

imply a continuing obligation upon the expiration or termination of this Agreement. Upon the expiration of the Term, the continuation of your employment (if applicable) shall be deemed "at-will." Accordingly, upon the expiration of the Term, your employment with Company shall not be subject to a defined term, but rather, you may terminate your employment with Company at any time and for any reason and Company may terminate your employment at any time and for any reason. In the event of the expiration or termination of this Agreement for any reason, only the provisions of Paragraphs 12, 13, 14, 15, 16, 17 and 18 shall survive and all other provisions of this Agreement, including the provisions relating to Special Termination Payments, shall be of no further force or effect; provided that the provisions of Paragraph 11 shall survive the expiration or termination of this Agreement pursuant to a Special Termination or Qualifying Non-renewal and the provisions of Paragraph 9 shall survive the termination of this Agreement by reason of your death or termination by Company thereunder. The failure of either party at any time or times to require performance of any provision hereof shall in no manner affect the right at a later time to enforce the same. No waiver by either party of the breach of any term or covenant contained in this Agreement, whether by conduct or otherwise, in any one or more instances, shall be deemed to be, or construed as, a further or continuing waiver of any such breach, or a waiver of the breach of any other term or covenant contained in this Agreement.

(g) This Agreement shall be governed by and construed according to the laws of the State of California as applicable to agreements executed in and to be wholly performed within such State. Exclusive jurisdiction of any dispute, action, proceeding or claim arising out of or relating to this Agreement shall lie in the state or federal courts in the State of California, located in Los Angeles County.

(h) All payments made to you hereunder shall be subject to applicable withholding, social security taxes and other ordinary and customary payroll deductions, including medical and other insurance premiums.

(i) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. The words (i) "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation," and (ii) "herein," "hereof" and "hereunder," and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof.

18. Section 409A: This Agreement is intended to comply with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and shall be interpreted in a manner intended to comply with Section 409A of the Code (and any related regulations or other pronouncements). Amounts payable under this Agreement shall be deemed not to be a "deferral of compensation" subject to Section 409A of the Code to the extent provided in the exceptions set forth in Treas. Reg. Section 1.409A-1(b)(4) ("short-term deferrals") and Treas. Reg. Section 1.409A-1(b)(9) ("separation pay plans") and other applicable provisions of Treas. Reg. Section

1.409A-1 through A-6. References under this Agreement to a termination of your employment shall be deemed to refer to the date upon which you have experienced a "separation from service" within the meaning of Section 409A of the Code. Notwithstanding anything herein to the contrary, (a) if at the time of your separation from service with Company you are a "specified employee" as defined in Section 409A of the Code (and any related regulations or other pronouncements thereunder) and the deferral of the commencement of any payments or benefits otherwise payable hereunder as a result of such termination of employment is necessary in order to prevent any accelerated or additional tax under Section 409A of the Code, then Company shall defer the commencement of the payment of any such payments or benefits hereunder (without any reduction in such payments or benefits ultimately paid or provided to you) until the date that is six months following your separation from service (or the earliest date as is permitted under Section 409A of the Code), at which point all payments deferred pursuant to this Paragraph shall be paid to you in a lump sum and (b) if any other payments of money or other benefits due to you hereunder could cause the application of an accelerated or additional tax under Section 409A of the Code, such payments or other benefits shall be deferred if deferral shall make such payment or other benefits compliant under Section 409A of the Code, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner, determined by Company, that does not cause such an accelerated or additional tax. To the extent any reimbursements or in-kind benefits due to you under this Agreement constitute "deferred compensation" under Section 409A of the Code, any such reimbursements or in-kind benefits shall be paid to you in a manner consistent with Treas. Reg. Section 1.409A-3(i)(1)(iv). Each payment made under this Agreement shall be designated as a "separate payment" within the meaning of Section 409A of the Code. For the avoidance of doubt, any continued health benefit plan coverage that you are entitled to receive following your termination of employment is expected to be exempt from Section 409A of the Code and, as such, shall not be subject to delay pursuant to this Paragraph.

[signature page follows]

If the foregoing correctly sets forth our understanding, please sign below and return this Agreement to Company.

Very truly yours,

WARNER/CHAPPELL MUSIC, INC.

By: /s/ Jon Platt_____
Name: Jon Platt

Accepted and Agreed:

/s/ Carianne Marshall_____
Carianne Marshall

COEX-
9.19

Exhibit 10.22
11/13/18

WARNER/CHAPPELL MUSIC, INC.
10585 Santa Monica Boulevard
Los Angeles, CA 90025

November 16, 2018

Carianne Marshall
c/o Gang, Tyre, Ramer, Brown & Passman, Inc.
132 S. Rodeo Drive
Beverly Hills, CA 90212
Attn: Donald Passman, Esq.

Dear Carianne:

Please refer to the employment agreement between Warner/Chappell Music, Inc. ("Company") and you dated March 12, 2018 (the "Agreement").

This letter, when signed by you and countersigned by Company, shall constitute our agreement to amend the Agreement as set forth herein. Unless otherwise indicated, capitalized terms shall have the meanings set forth in the Agreement.

1. Paragraph 3(a) of the Agreement is hereby amended to provide that effective as of November 1, 2018, your annual rate of salary shall be $1,000,000. As soon as practicable following the date on which this letter is executed in full (the "Effective Date"), Company shall pay to you an amount equal to the difference between (a) the salary that would have been payable to you if your annual rate of salary during the period from November 1, 2018 through the Effective Date was $1,000,000 and (b) the salary paid to you for such period.

2. The following sentence is hereby inserted between the second and third sentences of Paragraph 3(b) of the Agreement:

> "With respect to the 2019 fiscal year, and subject to the factors described in the preceding sentence, Company shall take into consideration your additional responsibilities and services rendered to Company during the Interim Period in determining the amount of your annual bonus for such fiscal year."

3. The address for notices to you under Paragraph 16 of the Agreement is hereby amended and restated in its entirety to read as follows:

> "TO YOU:

COEX-
9.19

Carianne Marshall
Address on file with Company

With a copy to:

Gang, Tyre, Ramer, Brown & Passman, Inc.
132 S. Rodeo Drive
Beverly Hills, CA 90212
Attn: Donald Passman, Esq."

Except as expressly amended herein, the terms and provisions of the Agreement shall remain in full force and effect.

If the foregoing correctly sets forth our understanding, please sign below and return this letter to Company.

WARNER/CHAPPELL MUSIC, INC.

By: /s/ Paul Robinson
Name: Paul M. Robinson

Accepted and Agreed:

/s/ Carianne Marshall
Carianne Marshall

COEX-
9.19

Exhibit 10.23

WARNER/CHAPPELL MUSIC, INC.
10585 Santa Monica Boulevard
Burbank, CA 91505

January 8, 2019

Carianne Marshall
c/o Gang, Tyre, Ramer, Brown & Passman, Inc.
132 S. Rodeo Drive
Beverly Hills, CA 90212
Attn: Donald Passman, Esq.

Dear Carianne:

Please refer to the employment agreement between Warner/Chappell Music, Inc. ("Company") and you dated March 12, 2018, as amended by letter agreement dated November 16, 2018 (as amended, the "Agreement").

This letter, when signed by you and countersigned by Company, shall constitute our agreement to amend the Agreement as set forth herein. Unless otherwise indicated, capitalized terms shall have the meanings set forth in the Agreement.

1. Effective as of the date hereof, Paragraph 1 of the Agreement is hereby amended and restated in its entirety as follows:

"Title and Responsibilities: Your title shall be Co-Chair and Chief Operating Officer, Warner/Chappell Music. Warner/Chappell Music's Operations, Synch, Finance, Administration/IT, Digital, Business Development, Creative Services and Catalogue functions shall report directly and solely to you. Warner/Chappell Music's Company P&L, Business Affairs, Budget Management, Deal Making, M&A, Business Strategy and Priorities & Roadmap functions shall report jointly to you and the Co-Chair and Chief Executive Officer, Warner/Chappell Music (which position is initially to be filled by Guy Moot)."

2. Effective as of the date hereof, Paragraph 2 of the Agreement is hereby amended and restated in its entirety as follows:

"Term: The term of this Agreement (the "Term") shall commence on June 1, 2018 and end on March 31, 2024."

3. Effective as of February 1, 2019, Paragraph 3(a) of the Agreement is hereby amended and restated in its entirety as follows:

"Salary: During the Term, Company shall pay you a salary at the rate of $1,250,000 per annum."

4. Effective as of the date hereof, Paragraph 3(b) of the Agreement is hereby amended and restated in its entirety as follows:

"Annual Discretionary Bonus: With respect to each fiscal year of the Term, commencing with the fiscal year that begins October 1, 2018 and ends September 30, 2019 (i.e., the 2019 fiscal year), Company shall consider granting to you an annual bonus (or a pro rata portion thereof for a portion of such fiscal year). Your target bonus with respect to the 2019 fiscal year shall be $1,266,667 (which reflects the proration of your annual target of $1,750,000 commencing February 1, 2019 and your prior annual target of $300,000), and your target bonus for each fiscal year of the Term thereafter shall be $1,750,000 (or a pro rata portion of such amount for a portion of a fiscal year). The amount of any annual bonus awarded to you shall be determined by Company in its sole discretion based on factors including the strength of your performance and the performance of Company (which includes your delivery of certain business and financial objectives) and of Warner Music Group; provided that the amount of any annual bonus awarded to you may be higher or lower than the target amount. Solely with respect to the 2019 fiscal year, and subject to the factors described in the preceding sentence, Company shall take into consideration your additional responsibilities and services rendered to Company during the period in which Company sought to appoint a new senior-most executive of Company in determining the amount of your annual bonus for such fiscal year. Annual discretionary bonuses or pro rata portions thereof, if any, payable to you pursuant to this Paragraph, shall each be paid to you not later than such time as bonuses with respect to the applicable fiscal year are paid to employees of Company generally."

5. Effective as of the date hereof, the following paragraph is hereby added as new Paragraph 3(e) of the Agreement:

"New LTIP: If, during the Term, Warner Music Group establishes a new long-term incentive plan or program (a "New LTIP") for which executives of Warner Music Group at your level are eligible to participate, then Warner Music Group shall, in good faith, offer you the opportunity to participate in such New LTIP in accordance with the terms and conditions of such plan or program."

6. Effective as of the date hereof, Paragraph 5 of the Agreement is hereby amended and restated in its entirety as follows:

"Reporting: You shall at all times report solely and directly to and work solely under the supervision and direction of the Chief Executive Officer of Warner Music Group (currently, Steve Cooper) or the Chief Operating Officer of Warner Music Group (if such an officer is appointed) as Warner Music Group may determine in its sole reasonable discretion; provided that you and the Co-Chair and Chief Executive Officer, Warner/Chappell

Music, shall at all times report to the same senior executive officer. You shall perform such duties consistent with your position as you shall reasonably be directed to perform by such senior executive officer."

Except as expressly amended herein, the terms and provisions of the Agreement shall remain in full force and effect.

If the foregoing correctly sets forth our understanding, please sign below and return this letter to Company.

WARNER/CHAPPELL MUSIC, INC.

By: /s/ Paul Robinson
Name: Paul Robinson
VP & Secretary

Accepted and Agreed:

/s/ Carianne Marshall
Carianne Marshall

COEX-
9.19

Exhibit 21.1

WARNER MUSIC GROUP CORP.
SUBSIDIARIES OF THE REGISTRANT

Legal Name	State or Jurisdiction of Incorporation or Organization
615 Music Library, LLC	Tennessee
A.P. Schmidt Company	Delaware
Alternative Distribution Alliance	New York
Artist Arena LLC	New York
Artist Arena International LLC	New York
Arts Music Inc.	Delaware
Asylum Records LLC	Delaware
Asylum Worldwide LLC	Delaware
Atlantic/143 L.L.C.	Delaware
Atlantic Mobile LLC.	Delaware
Atlantic/MR Ventures Inc.	Delaware
Atlantic Pix LLC.	Delaware
Atlantic Productions LLC.	Delaware
Atlantic Recording Corporation	Delaware
Atlantic Scream LLC.	Delaware
Audio Properties/Burbank, Inc.	California
BB Investments LLC.	Delaware
Big Beat Records Inc.	Delaware
Bulldog Island Events LLC.	New York
Bute Sound LLC.	Delaware
Cafe Americana Inc.	Delaware
Chappell Music Company, Inc.	Delaware
Cordless Recordings LLC.	Delaware
Cota Music, Inc.	New York
Cotillion Music, Inc.	Delaware
CRK Music Inc.	Delaware
E/A Music, Inc.	Delaware
East West Records LLC.	Delaware
Eleksylum Music, Inc.	Delaware
Elektra/Chameleon Ventures Inc.	Delaware
Elektra Entertainment Group Inc.	Delaware
Elektra Group Ventures Inc.	Delaware
Elektra Music Group Inc. (formerly T.Y.S., Inc.)	New York
FHK, Inc.	Tennessee
Fiddleback Music Publishing Company, Inc.	Delaware
Foster Frees Music, Inc.	California
Foz Man Music LLC.	Delaware
Ferret Music Holdings LLC	Delaware
Ferret Music LLC	New Jersey
Ferret Music Management LLC	New Jersey
Ferret Music Touring LLC	New Jersey
Fueled By Ramen LLC.	Delaware
Insound Acquisition Inc.	Delaware
Intersong U.S.A., LLC.	Delaware
J. Ruby Productions, Inc.	California
Jadar Music Corp.	Delaware
Lava Records LLC.	Delaware
LEM America, Inc.	Delaware
London-Sire Records Inc.	Delaware
Maverick Recording Company	California
Maverick Partner Inc.	Delaware
McGuffin Music Inc.	Delaware
Mixed Bag Music, Inc.	New York
MM Investment LLC.	Delaware

COEX-
9.19

COEX-
9.19

Legal Name	State or Jurisdiction of Incorporation or Organization
Nonesuch Records Inc.	Delaware
Non-Stop Cataclysmic Music, LLC.	Utah
Non-Stop International Publishing, LLC.	Utah
Non-Stop Music Holdings, Inc.	Delaware
Non-Stop Music Library, LLC.	Utah
Non-Stop Music Publishing, LLC.	Utah
Non-Stop Outrageous Publishing, LLC.	Utah
Non-Stop Productions, LLC.	Utah
Octa Music, Inc.	New York
P & C Publishing LLC	New York
Pepamar Music Corp.	New York
Rep Sales, Inc.	Minnesota
Revelation Music Publishing Corporation	New York
Rhino Entertainment Company	Delaware
Rhino Entertainment LLC	Delaware
Rhino Focus Holdings LLC	Delaware
Rhino/FSE Holdings LLC.	Delaware
Rhino Name and Likeness Holdings LLC.	Delaware
Rick's Music Inc.	Delaware
Rightsong Music Inc.	Delaware
Roadrunner Records Inc.	New York
Ryko Corporation	Delaware
Rykodisc, Inc.	Minnesota
Rykomusic, Inc.	Minnesota
Sea Chime Music, Inc.	California
Six-Fifteen Music Productions, Inc.	Tennessee
Sodatone USA LLC	Delaware
SR/MDM Venture Inc.	Delaware
Summy-Birchard, Inc.	Wyoming
Super Hype Publishing, Inc.	New York
T-Boy Music, L.L.C.	New York
T-Girl Music, L.L.C.	New York
The All Blacks USA Inc.	Delaware
The Biz LLC.	Delaware
Tommy Valando Publishing Group, Inc.	Delaware
Unichappell Music Inc.	Delaware
Upped.com LLC	Delaware
Uproxx LLC	Delaware
W.C.M. Music Corp. (formerly W.B.M. Music Corp.)	Delaware
Walden Music Inc.	New York
Warner Alliance Music Inc.	Delaware
Warner Brethren Inc.	Delaware
Warner Music Publishing International Inc. (formerly Warner Bros. Music International Inc.)	Delaware
Warner Records Inc. (formerly Warner Bros. Records Inc.)	Delaware
Warner Chappell Music, Inc.	Delaware
Warner Chappell Music (Services), Inc.	New Jersey
Warner Chappell Production Music, Inc.	Delaware
Warner Custom Music Corp.	California
Warner Domain Music Inc.	Delaware
Warner-Elektra-Atlantic Corporation	New York
Warner Music Discovery Inc.	Delaware
Warner Music Distribution LLC	Delaware
Warner Music Inc.	Delaware
Warner Music Latina Inc.	Delaware
Warner Music Nashville LLC	Tennessee
Warner Music SP Inc.	Delaware
Warner Sojourner Music Inc.	Delaware

WarnerSongs Inc.	COEX-9.19	Delaware

COEX-
9.19

Legal Name	State or Jurisdiction of Incorporation or Organization
Warner Special Products Inc.	Delaware
Warner Strategic Marketing Inc.	Delaware
Warner-Tamerlane Publishing Corp.	California
Warprise Music Inc.	Delaware
WC Gold Music Corp. (formerly WB Gold Music Corp.)	Delaware
W Chappell Music Corp. (formerly WB Music Corp.)	California
WCM/House of Gold Music, Inc. (formerly WBM/House of Gold Music, Inc.	Delaware
Warner Records/QRI Ventures, Inc. (formerly WBR/QRI Venture, Inc.)	Delaware
Warner Records/Ruffnation Ventures, Inc. (formerly WBR/Ruffnation Ventures, Inc.)	Delaware
Warner Records/SIRE Ventures Inc. (formerly WBR/Sire Ventures Inc.	Delaware
WEA Europe Inc.	Delaware
WEA Inc.	Delaware
WEA International Inc.	Delaware
Wide Music, Inc.	California
WMG COE, LLC	Delaware
WMG Productions LLC	Delaware
WMG Rhino Holdings Inc.	Delaware
WMG Acquisition Corp.	Delaware
WMG Holdings Corp.	Delaware
Wrong Man Development Limited Liability Company	New York

COEX-
9.19

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Stephen Cooper, certify that:

1. I have reviewed this annual report on Form 10-K for the period ended September 30, 2019 of Warner Music Group Corp. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: November 27, 2019

/S/ STEPHEN COOPER

Chief Executive Officer
(Principal Executive Officer)

COEX-
9.19

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Eric Levin, certify that:

1. I have reviewed this annual report on Form 10-K for the period ended September 30, 2019 of Warner Music Group Corp. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: November 27, 2019

/s/ Eric Levin

Chief Financial Officer
(Principal Financial and Accounting Officer)

COEX-
9.19

Exhibit 32.1

Certification of the Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Warner Music Group Corp. (the "Company") on Form 10-K for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen Cooper, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 27, 2019

/S/ STEPHEN COOPER

Stephen Cooper
Chief Executive Officer

COEX-
9.19

Exhibit 32.2

Certification of the Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Warner Music Group Corp. (the "Company") on Form 10-K for the period ended September 30, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric Levin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 27, 2019

/S/ ERIC LEVIN

Eric Levin
Chief Financial Officer

COEX-9.20

COEX-
9.20

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2019

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	**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)

(212) 275-2000
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class (a)	Trading Symbol(s)	Name of each exchange on which registered
None		

(a) There is no public market for the registrant's common stock. As of January 31, 2020, the number of shares of the registrant's common stock, par value $0.001 per share, outstanding was 1,069. 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.

COEX-
9.20

WARNER MUSIC GROUP CORP.

INDEX

		Page Number
Part I.	**Financial Information**	
Item 1.	Financial Statements (Unaudited)	1
	Consolidated Balance Sheets as of December 31, 2019 and September 30, 2019	1
	Consolidated Statements of Operations for the Three Months Ended December 31, 2019 and December 31, 2018	2
	Consolidated Statements of Comprehensive Income for the Three Months Ended December 31, 2019 and December 31, 2018	3
	Consolidated Statements of Cash Flows for the Three Months Ended December 31, 2019 and December 31, 2018	4
	Consolidated Statements of Deficit for the Three Months Ended December 31, 2019 and December 31, 2018	5
	Notes to Consolidated Interim Financial Statements	6
	Supplementary Information—Consolidating Financial Statements	23
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	32
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	51
Item 4.	Controls and Procedures	51
Part II.	**Other Information**	
Item 1.	Legal Proceedings	53
Item 1A.	Risk Factors	53
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	53
Item 3.	Defaults Upon Senior Securities	53
Item 4.	Mine Safety Disclosures	53
Item 5.	Other Information	53
Item 6.	Exhibits	54
Signatures		55

COEX-
9.20

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Warner Music Group Corp.

Consolidated Balance Sheets (Unaudited)

	December 31, 2019	September 30, 2019
	(in millions)	
Assets		
Current assets:		
Cash and equivalents	$ 462	$ 619
Accounts receivable, net of allowances of $18 million and $17 million	882	775
Inventories	65	74
Royalty advances expected to be recouped within one year	189	170
Prepaid and other current assets	58	53
Total current assets	1,656	1,691
Royalty advances expected to be recouped after one year	231	208
Property, plant and equipment, net	295	300
Operating lease right-of-use assets, net	289	—
Goodwill	1,768	1,761
Intangible assets subject to amortization, net	1,712	1,723
Intangible assets not subject to amortization	152	151
Deferred tax assets, net	59	38
Other assets	152	145
Total assets	$ 6,314	$ 6,017
Liabilities and Equity		
Current liabilities:		
Accounts payable	$ 202	$ 260
Accrued royalties	1,671	1,567
Accrued liabilities	549	492
Accrued interest	23	34
Operating lease liabilities, current	38	—
Deferred revenue	159	180
Other current liabilities	157	286
Total current liabilities	2,799	2,819
Long-term debt	2,988	2,974
Operating lease liabilities, noncurrent	321	—
Deferred tax liabilities, net	171	172
Other noncurrent liabilities	204	321
Total liabilities	$ 6,483	$ 6,286
Equity:		
Common stock ($0.001 par value; 10,000 shares authorized; 1,069 and 1,060 shares issued and outstanding as of December 31, 2019 and September 30, 2019, respectively)	$ —	$ —
Additional paid-in capital	1,128	1,128
Accumulated deficit	(1,088)	(1,177)
Accumulated other comprehensive loss, net	(230)	(240)
Total Warner Music Group Corp. deficit	(190)	(289)
Noncontrolling interest	21	20
Total equity	(169)	(269)
Total liabilities and equity	$ 6,314	$ 6,017

See accompanying notes

COEX-
9.20

Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended December 31,	
	2019	2018
	(in millions)	
Revenue	$ 1,256	$ 1,203
Costs and expenses:		
Cost of revenue	(665)	(626)
Selling, general and administrative expenses (a)	(379)	(376)
Amortization expense	(47)	(54)
Total costs and expenses	(1,091)	(1,056)
Operating income	165	147
Loss on extinguishment of debt	—	(3)
Interest expense, net	(33)	(36)
Other (expense) income	(5)	28
Income before income taxes	127	136
Income tax expense	(5)	(50)
Net income	122	86
Less: Income attributable to noncontrolling interest	(2)	—
Net income attributable to Warner Music Group Corp.	$ 120	$ 86
(a) Includes depreciation expense:	$ (24)	$ (14)

See accompanying notes

COEX-
9.20

Warner Music Group Corp.

Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended December 31,	
	2019	2018
	(in millions)	
Net income	$ 122	$ 86
Other comprehensive income (loss), net of tax:		
Foreign currency adjustment	7	(16)
Deferred gain (loss) on derivative financial instruments	3	(6)
Other comprehensive income (loss), net of tax	10	(22)
Total comprehensive income	132	64
Less: Income attributable to noncontrolling interest	(2)	—
Comprehensive income attributable to Warner Music Group Corp.	$ 130	$ 64

See accompanying notes

COEX-
9.20

Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended December 31,	
	2019	2018
	(in millions)	
Cash flows from operating activities		
Net income	$ 122	$ 86
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	71	68
Unrealized gains and remeasurement of foreign-denominated loans	5	(13)
Deferred income taxes	(29)	11
Loss on extinguishment of debt	—	3
Net gain on divestitures and investments	1	(15)
Non-cash interest expense	1	2
Equity-based compensation expense	(7)	12
Changes in operating assets and liabilities:		
Accounts receivable, net	(101)	(88)
Inventories	10	13
Royalty advances	(38)	(28)
Accounts payable and accrued liabilities	(44)	(92)
Royalty payables	84	92
Accrued interest	(11)	(7)
Operating lease liabilities	1	—
Deferred revenue	(21)	(5)
Other balance sheet changes	34	53
Net cash provided by operating activities	78	92
Cash flows from investing activities		
Acquisition of music publishing rights, net	(11)	(5)
Capital expenditures	(15)	(26)
Investments and acquisitions of businesses, net of cash received	(6)	(207)
Net cash used in investing activities	(32)	(238)
Cash flows from financing activities		
Proceeds from issuance of Acquisition Corp. 3.625% Senior Secured Notes	—	287
Repayment of Acquisition Corp. 4.125% Senior Secured Notes	—	(40)
Repayment of Acquisition Corp. 4.875% Senior Secured Notes	—	(30)
Repayment of Acquisition Corp. 5.625% Senior Secured Notes	—	(27)
Call premiums paid and deposit on early redemption of debt	—	(2)
Deferred financing costs paid	—	(4)
Distribution to noncontrolling interest holder	(1)	(2)
Dividends paid	(206)	—
Net cash (used in) provided by financing activities	(207)	182
Effect of exchange rate changes on cash and equivalents	4	(2)
Net (decrease) increase in cash and equivalents	(157)	34
Cash and equivalents at beginning of period	619	514
Cash and equivalents at end of period	$ 462	$ 548

See accompanying notes

COEX-
9.20

Warner Music Group Corp.

Consolidated Statements of Deficit (Unaudited)

Three Months Ended December 31, 2019

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. Deficit	Noncontrolling Interest	Total Deficit
	Shares	Value						
	(in millions, except share amounts)							
Balance at September 30, 2019	1,060	$ —	$ 1,128	$ (1,177)	$ (240)	$ (289)	$ 20	$ (269)
Cumulative effect of ASC 842 adoption	—	—	—	7	—	7	—	7
Net income	—	—	—	120	—	120	2	122
Other comprehensive income, net of tax	—	—	—	—	10	10	—	10
Dividends	—	—	—	(38)	—	(38)	—	(38)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(1)	(1)
Other	9	—	—	—	—	—	—	—
Balance at December 31, 2019	1,069	$ —	$ 1,128	$ (1,088)	$ (230)	$ (190)	$ 21	$ (169)

Three Months Ended December 31, 2018

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. Deficit	Noncontrolling Interest	Total Deficit
	Shares	Value						
	(in millions, except share amounts)							
Balance at September 30, 2018	1,052	$ —	$ 1,128	$ (1,272)	$ (190)	$ (334)	$ 14	$ (320)
Cumulative effect of ASC 606 adoption	—	—	—	139	—	139	11	150
Net income	—	—	—	86	—	86	—	86
Other comprehensive loss, net of tax	—	—	—	—	(22)	(22)	—	(22)
Dividends	—	—	—	(31)	—	(31)	—	(31)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	(2)	(2)
Other	8	—	—	—	—	—	—	—
Balance at December 31, 2018	1,060	$ —	$ 1,128	$ (1,078)	$ (212)	$ (162)	$ 23	$ (139)

See accompanying notes

Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited)

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 entertainment 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 New York Stock Exchange (the "NYSE"). The Company continues to voluntarily file with the U.S. Securities and Exchange Commission (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") as provided for in certain covenants contained in the instruments covering its outstanding indebtedness. All of the Company's common stock is owned by affiliates of Access.

Recorded Music Operations

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

In the United States, our Recorded Music business is conducted principally through our major record labels—Atlantic Records and Warner Records. In October 2018, we launched Elektra Music Group in the United States as a standalone label group, which comprises the Elektra, Fueled by Ramen and Roadrunner labels. Our Recorded Music business also includes Rhino Entertainment, a division that specializes in marketing our recorded music catalog through compilations, reissuances of previously released music and video titles and releasing previously unreleased material from our vault. We also conduct our Recorded Music business through a collection of additional record labels including Asylum, Big Beat, Canvasback, East West, Erato, FFRR, Nonesuch, Parlophone, Reprise, Sire, Spinnin', Warner Classics and Warner Music Nashville.

Outside the United States, our Recorded Music business is conducted in more than 70 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, selling, marketing and promoting their music. In most cases, we also market, promote, distribute and sell the music of those recording artists for whom our domestic record labels have international rights. In certain smaller markets, we license the right to distribute and sell our music to non-affiliated third-party record labels.

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

In addition to our music being sold in physical retail outlets, our music is also sold in physical form to online physical retailers, such as Amazon.com, barnesandnoble.com and bestbuy.com, and distributed in digital form to an expanded universe of digital partners, including streaming services such as those of Amazon, Apple, Deezer, SoundCloud, Spotify, Tencent Music Entertainment Group and YouTube, radio services such as iHeart Radio and SiriusXM and download services such as Apple's iTunes and Google Play.

We have integrated the marketing of digital content into all aspects of our business, including artist and repertoire ("A&R") and distribution. Our business development executives work closely with A&R departments to ensure that while music 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 attributable to each distribution channel varies by region and proportions may change as the introduction of new technologies continues. As one of the world's largest music entertainment companies, 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 such artists in other aspects of their careers. Under these agreements, we provide services to and participate in recording artists' activities outside the traditional recorded music business such as touring, merchandising and sponsorships. We have built and acquired artist services capabilities and platforms for marketing and distributing 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 merchandising, VIP ticketing, fan clubs, 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 our recording artists and allows us to more effectively connect recording artists and fans.

Music Publishing Operations

While Recorded Music is focused on marketing, promoting, distributing and licensing a particular recording of a musical composition, Music Publishing is an intellectual property business focused on generating revenue from uses of the musical 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 musical compositions.

The operations of our Music Publishing business are conducted principally through Warner Chappell Music, our global music publishing company headquartered in Los Angeles with operations in over 70 countries through various subsidiaries, affiliates and non-affiliated licensees. We own or control rights to more than 1.4 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 80,000 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 and gospel. Warner Chappell Music also administers the music and soundtracks of several third-party television and film producers and studios. We have an extensive production music catalog collectively branded as Warner Chappell Production Music.

2. Summary of Significant Accounting Policies

Interim Financial Statements

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three month period ended December 31, 2019 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2020.

The consolidated balance sheet at September 30, 2019 has been derived from the audited consolidated financial statements at that date but does not include all the information and notes required by U.S. GAAP for complete financial statements.

For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019 (File No. 001-32502).

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.

The Company maintains a 52-53 week fiscal year ending on the last Friday in each reporting period. As such, all references to December 31, 2019 and December 31, 2018 relate to the periods ended December 27, 2019 and December 28, 2018, respectively. For convenience purposes, the Company continues to date its financial statements as of December 31. The fiscal year ended September 30, 2019 ended on September 27, 2019.

The Company has performed a review of all subsequent events through the date the financial statements were issued and has determined that no additional disclosures are necessary.

Income Taxes

The Company uses the estimated annual effective tax rate method in computing its interim tax provision. Certain items, including those deemed to be unusual and infrequent are excluded from the estimated annual effective tax rate. In such cases, the actual tax expense or benefit is reported in the same period as the related item. Certain tax effects are also not reflected in the estimated annual effective tax rate, primarily certain changes in the realizability of deferred tax assets and uncertain tax positions.

New Accounting Pronouncements

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases* (“ASU 2016-02”), which established a new ASC Topic 842 (“ASC 842”) that introduces a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. In July 2018, the FASB issued ASU 2018-11, *Leases – Targeted Improvements* (“ASU 2018-11”), which allows for retrospective application with the recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Under this option, entities do not need to apply ASC 842 (along with its disclosure requirements) to the comparative prior periods presented. The Company adopted ASU 2016-02 on October 1, 2019, using the modified retrospective transition method provided by ASU 2018-11. The adoption of ASU 2016-02 resulted in the recognition of operating lease liabilities of $366 million and ROU assets of $297 million, which is net of the historical deferred rent liability balance of $69 million, primarily related to real estate leases. The Company also recorded a decrease to opening accumulated deficit of $7 million, net of taxes, related to previously deferred gains related to sale-leaseback transactions.

Upon transition, the Company adopted the “package of three” practical expedient provided by ASC 842 and therefore has not (1) reassessed whether any expired or existing contracts are or contain a lease, (2) reassessed the lease classification for expired or existing leases and (3) reassessed initial direct costs for any existing leases. Rather, the Company will retain the conclusions reached for these items under ASC 840.

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities* (“ASU 2017-12”). This ASU improves certain aspects of the hedge accounting model including making more risk management strategies eligible for hedge accounting and simplifying the assessment of hedge effectiveness. ASU 2017-12 is effective for all annual periods beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted and requires a prospective adoption with a cumulative-effect adjustment to accumulated deficit as of the beginning of the fiscal year of adoption for existing hedging relationships. The Company adopted ASU 2017-12 in the first quarter of fiscal 2020 and this adoption did not have a significant impact on the Company’s financial statements.

Accounting Pronouncements Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments* (“ASU 2016-13”). ASU 2016-13 requires that expected credit losses relating to financial assets measured on an amortized cost basis and available-for-sale debt securities be recorded through an allowance for credit losses. ASU 2016-13 limits the amount of credit losses to be recognized for available-for-sale debt securities to the amount by which carrying value exceeds fair value and also requires the reversal of previously recognized credit losses if fair value increases. ASU 2016-13 will be effective for annual periods beginning after December 15, 2019, and interim periods within those fiscal years. Earlier adoption is permitted. The Company is evaluating the impact of the adoption of this standard on its consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes* (“ASU 2019-12”). This ASU eliminates certain exceptions to the general principles in ASC 740, *Income Taxes*. Specifically, it eliminates the exception to (1) the incremental approach for intraperiod tax allocation when there is a loss from continuing operations, and income or a gain from

other items; (2) the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment; (3) the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary; and (4) the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. ASU 2019-12 also simplifies GAAP by making other changes. ASU 2019-12 will be effective for the annual periods beginning after December 15, 2021, and for interim periods beginning after December 15, 2022. Earlier adoption is permitted. The Company is evaluating the impact of the adoption of this standard on its consolidated financial statements.

3. Revenue Recognition

For our operating segments, Recorded Music and Music Publishing, the Company accounts for a contract when it has legally enforceable rights and obligations and collectability of consideration is probable. The Company identifies the performance obligations and determines the transaction price associated with the contract, which is then allocated to each performance obligation, using management's best estimate of standalone selling price for arrangements with multiple performance obligations. Revenue is recognized when, or as, control of the promised services or goods is transferred to the Company's customers, and in an amount that reflects the consideration the Company is contractually due in exchange for those services or goods. An estimate of variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Certain of the Company's arrangements include licenses of intellectual property with consideration in the form of sales- and usage-based royalties. Royalty revenue is recognized when the subsequent sale or usage occurs using the best estimates available of the amounts that will be received by the Company.

Disaggregation of Revenue

The Company's revenue consists of the following categories, which aggregate into the segments – Recorded Music and Music Publishing:

	For the Three Months Ended December 31,	
	2019	2018
	(in millions)	
Revenue by Type		
Digital	$ 633	$ 563
Physical	184	231
Total Digital and Physical	817	794
Artist services and expanded-rights	188	166
Licensing	79	81
Total Recorded Music	1,084	1,041
Performance	46	53
Digital	73	65
Mechanical	15	15
Synchronization	36	29
Other	3	3
Total Music Publishing	173	165
Intersegment eliminations	(1)	(3)
Total Revenues	$ 1,256	$ 1,203
Revenue by Geographical Location		
U.S. Recorded Music	$ 453	$ 431
U.S. Music Publishing	81	73
Total U.S.	534	504
International Recorded Music	631	610
International Music Publishing	92	92
Total International	723	702
Intersegment eliminations	(1)	(3)
Total Revenues	$ 1,256	$ 1,203

Recorded Music

Recorded Music mainly involves selling, marketing, distribution and licensing of recorded music produced by the Company's recording artists. Recorded Music revenues are derived from four main sources, which include digital, physical, artist services and expanded-rights and licensing.

Digital revenues are generated from the expanded universe of digital partners, including digital streaming services and download services. These licenses typically contain a single performance obligation, which is ongoing access to all intellectual property in an evolving content library, predicated on: (1) the business practice and contractual ability to remove specific content without a requirement to replace the content and without impact to minimum royalty guarantees and (2) the contracts not containing a specific listing of content subject to the license. Digital licensing contracts are generally long-term with consideration in the form of sales- and usage-based royalties that are typically received monthly. Certain contracts contain non-recoupable fixed fees or minimum guarantees, which are recoupable against royalties. Upon contract inception, the Company will assess whether a shortfall or breakage is expected (i.e., where the minimum guarantee will not be recouped through royalties) in order to determine timing of revenue recognition for the fixed fee or minimum guarantee.

For fixed fee and minimum guarantee contracts where breakage is expected, the total transaction price (fixed fee or minimum guarantee) is recognized proportionately over the contract term using an appropriate measure of progress which is typically based on the Company's digital partner's subscribers or streaming activity as these are measures of access to an evolving catalog, or on a straight-line basis. The Company updates its assessment of the transaction price each reporting period to see if anticipated royalty earnings exceed the minimum guarantee. For contracts where breakage is not expected, royalties are recognized as revenue as sales or usage occurs based upon the licensee's usage reports and, when these reports are not available, revenue is based on historical data, industry information and other relevant trends.

Additionally, for certain licenses where the consideration is fixed and the intellectual property being licensed is static, revenue is recognized at the point in time when control of the licensed content is transferred to the customer.

Physical revenues are generated from the sale of physical products such as vinyl, CDs and DVDs. Revenues from the sale of physical Recorded Music products are recognized upon transfer of control to the customer, which typically occurs once the product has been shipped and the ability to direct use and obtain substantially all of the benefit from the asset 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.

Artist services and expanded-rights revenues are generated from artist services businesses and participations in expanded-rights associated with artists, including sponsorship, fan clubs, artist websites, merchandising, touring, concert promotion, ticketing and artist and brand management. Artist services and expanded-rights contracts are generally short term. Revenue is recognized as or when services are provided (e.g., at time of an artist's event) assuming collectability is probable. In some cases, the Company is reliant on the artist to report revenue generating activities. For certain artist services and expanded-rights contracts, collectability is not considered probable until notification is received from the artist's management.

Licensing revenues represent 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 video games. In certain territories, the Company may also receive royalties when 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. Licensing contracts are generally short term. For fixed-fee contracts, revenue is recognized at the point in time when control of the licensed content is transferred to the customer. Royalty based contracts are recognized as the underlying sales or usage occurs.

Music Publishing

Music Publishing acts as a copyright owner and/or administrator of the musical compositions and generates revenues related to the exploitation of musical compositions (as opposed to recorded music). Music publishers generally receive royalties from the use of the musical compositions in public performances, digital and physical recordings and in combination with visual images. Music publishing revenues are derived from five main sources: mechanical, performance, synchronization, digital and other.

Performance revenues are received when the musical 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 musical compositions in staged theatrical productions. Digital revenues are generated with respect to the musical compositions being embodied in recordings licensed to digital streaming services and digital download services and for digital performance. Mechanical revenues are generated with respect to the musical compositions embodied in recordings sold in any physical format or configuration

such as vinyl, CDs and DVDs. Synchronization revenues represent the right to use the composition in combination with visual images such as in films or television programs, television commercials and video games as well as from other uses such as in toys or novelty items and merchandise. Other revenues represent earnings for use in printed sheet music and other uses. Digital and synchronization revenue recognition is similar for both Recorded Music and Music Publishing, therefore refer to the discussion within Recorded Music.

Included in these revenue streams, excluding synchronization and other, are licenses with performing rights organizations or collecting societies (e.g., ASCAP, BMI, SESAC and GEMA), which are long-term contracts containing a single performance obligation, which is ongoing access to all intellectual property in an evolving content library. The most common form of consideration for these contracts is sales- and usage-based royalties. The collecting societies submit usage reports, typically with payment for royalties due, often on a quarterly or biannual reporting period, in arrears. Royalties are recognized as the sale or usage occurs based upon usage reports and, when these reports are not available, royalties are estimated based on historical data, such as recent royalties reported, company-specific information with respect to changes in repertoire, industry information and other relevant trends. Also included in these revenue streams are smaller, short-term contracts for specified content, which generally involve a fixed fee. For fixed-fee contracts, revenue is recognized at the point in time when control of the license is transferred to the customer.

The Company excludes from the measurement of transaction price all taxes assessed by governmental authorities that are both (i) imposed on and concurrent with a specific revenue-producing transaction and (ii) collected from customers.

Sales Returns and Uncollectible Accounts

In accordance with practice in the recorded music industry and as customary in many territories, certain physical revenue products (such as CDs and DVDs) are sold to customers with the right to return unsold items. 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 return trends, current economic conditions, changes in customer demand and commercial acceptance of the Company’s 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 and records an asset for the value of the returned goods and liability for the amounts expected to be refunded.

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. The time between the Company’s issuance of an invoice and payment due date is not significant; customer payments that are not collected in advance of the transfer of promised services or goods are generally due no later than 30 days from invoice date. Based on this information, management provides a reserve for the estimated amounts believed to be uncollectible.

Based on management’s analysis of sales returns, refund liabilities of $36 million and $23 million were established at December 31, 2019 and September 30, 2019, respectively.

Based on management’s analysis of uncollectible accounts, reserves of $18 million and $17 million were established at December 31, 2019 and September 30, 2019, respectively.

Principal versus Agent Revenue Recognition

The Company reports revenue on a gross or net basis based on management’s assessment of whether the Company acts as a principal or agent in the transaction. The determination of whether the Company acts as a principal or an agent in a transaction is based on an evaluation of whether the Company controls the good or service before transfer to the customer. When the Company concludes that it controls the good or service before transfer to the customer, the Company is considered a principal in the transaction and records revenue on a gross basis. When the Company concludes that it does not control the good or service before transfer to the customer but arranges for another entity to provide the good or service, the Company acts as an agent and records revenue on a net basis in the amount it earns for its agency service.

In the normal course of business, the Company acts as an intermediary with respect to certain payments received from third parties. For example, the Company distributes music content on behalf of third-party record labels. Based on the above guidance, the Company records the distribution of content on behalf of third-party record labels on a gross basis, subject to the terms of the contract, as the Company controls the content before transfer to the customer. Conversely, recorded music compilations distributed by other record companies where the Company has a right to participate in the profits are recorded on a net basis.

Deferred Revenue

Deferred revenue principally relates to fixed fees and minimum guarantees received in advance of the Company's performance or usage by the licensee. Reductions in deferred revenue are a result of the Company's performance under the contract or usage by the licensee.

Deferred revenue increased $96 million during the three months ended December 31, 2019 related to cash received from customers for fixed fees and minimum guarantees in advance of performance, including amounts recognized in the period. Revenues of $73 million were recognized during the three months ended December 31, 2019 related to the balance of deferred revenue at September 30, 2019. There were no other significant changes to deferred revenue during the reporting period.

Performance Obligations

The Company recognized revenue of $27 million and $17 million from performance obligations satisfied in previous periods for the three month periods ended December 31, 2019 and December 31, 2018, respectively.

Wholly and partially unsatisfied performance obligations represent future revenues not yet recorded under long term intellectual property licensing contracts. Revenues expected to be recognized in the future related to performance obligations that are unsatisfied at December 31, 2019 are as follows (in millions):

	Rest of FY20	FY21	FY22	Thereafter	Total
			(in millions)		
Remaining performance obligations	$ 483	$ 661	$ 7	$ —	$ 1,151
Total	$ 483	$ 661	$ 7	$ —	$ 1,151

4. Comprehensive Income

Comprehensive income, which is reported in the accompanying consolidated statements of deficit, consists of net income and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income. For the Company, the components of other comprehensive income primarily consist of foreign currency translation gains and losses, minimum pension liabilities, and deferred gains and losses on financial instruments designated as hedges under ASC 815, *Derivatives and Hedging*, which include foreign exchange contracts. The following summary sets forth the changes in the components of accumulated other comprehensive loss, net of related taxes of approximately $1 million:

	Foreign Currency Translation Loss (a)	Minimum Pension Liability Adjustment	Deferred Gains (Losses) On Derivative Financial Instruments	Accumulated Other Comprehensive Loss, net
		(in millions)		
Balance at September 30, 2019	$ (218)	$ (14)	$ (8)	$ (240)
Other comprehensive income	7	—	3	10
Balance at December 31, 2019	$ (211)	$ (14)	$ (5)	$ (230)

(a) Includes historical foreign currency translation related to certain intra-entity transactions.

5. Leases

The Company's lease portfolio consists operating real estate leases for its corporate offices and, to a lesser extent, storage and other equipment, Under ASC 842, a contract is or contains a lease when (1) an explicitly or implicitly identified asset has been deployed in the contract and (2) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Company determines if an arrangement is or contains a lease at inception of the contract. For all leases (finance and operating), other than those that qualify for the short-term recognition exemption, the Company will recognize on the balance sheet a lease liability for its obligation to make lease payments arising from the lease and a corresponding ROU asset representing its right to use the underlying asset over the period of use based on the present value of lease payments over the lease term as of the lease commencement date. ROU assets are adjusted for initial direct costs, lease payments made and incentives. As the rates implicit in our leases are not readily determinable, the Company uses its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. This rate is based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments. The lease term used to calculate the lease liability will include options to extend or terminate the lease when the option to

extend or terminate is at the Company's discretion and it is reasonably certain that the Company will exercise the option. Fixed payments are recognized as lease expense on a straight-line basis over the lease term. For leases with a term of one year or less ("short-term leases"), the lease payments are recognized in the consolidated statement of operations on a straight-line basis over the lease term.

ASC 842 requires that only limited types of variable payments be included in the determination of lease payments, which affects lease classification and measurement. Variable lease costs, if any, are recognized as incurred and such costs are excluded from lease balances recorded on the consolidated balance sheet. The initial measurement of the lease liability and ROU asset are determined based on both the fixed lease payments and any variable lease payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate). The Company initially measures these variable lease payments using the index or rate at lease commencement (i.e., the spot or gross index or rate applied to the base rental amount). All other variable lease payments are recognized in the period in which the payments are incurred.

The Company's operating ROU assets are included in operating lease right-of-use assets and the Company's current and non-current operating lease liabilities are included in operating lease liabilities, current and operating lease liabilities, noncurrent, respectively, in the Company's balance sheet.

Operating lease liabilities are amortized using the effective interest method. That is, in each period, the liability will be increased to reflect the interest that is accrued on the related liability by using the appropriate discount rate and decreased by the lease payments made during the period. The subsequent measurement of the ROU asset is linked to the amount recognized as the lease liability. Accordingly, the ROU asset is measured as the lease liability adjusted by (1) accrued or prepaid rents (i.e., the aggregate difference between the cash payment and straight-line lease cost), (2) remaining unamortized initial direct costs and lease incentives, and (3) impairments of the ROU asset. Operating lease costs are included in Selling, general and administrative expenses.

For lease agreements that contain both lease and non-lease components, the Company has elected the practical expedient provided by ASC 842 that permits the accounting for these components as a single lease component (rather than separating the lease from the non-lease components and accounting for the components individually).

The Company enters into operating leases for buildings, office equipment, production equipment, warehouses, and other types of equipment. Our leases have remaining lease terms of 1 year to 12 years, some of which include options to extend the leases for up to 10 years, and some of which include options to terminate the leases within 1 year.

The Company has two operating leases, for the Ford Factory Building, located at 777 S. Santa Fe Avenue in Los Angeles, California, and for 27 Wrights Lane, Kensington, London, which the landlord for both leases is an affiliate of Access. As of December 31, 2019, the aggregate lease liability related to these leases was $142 million.

There are no restrictions or covenants, such as those relating to dividends or incurring additional financial obligations, relating to our lease portfolio, and residual value guarantees are not significant.

The components of lease expense were as follows:

	Three Months Ended December 31, 2019 (in millions)
Lease Cost	
Operating lease cost	$ 14
Short-term lease cost	—
Variable lease cost	3
Sublease income	—
Total lease cost	$ 17

Supplemental cash flow information related to leases was as follows:

	Three Months Ended December 31, 2019 (in millions)
Cash paid for amounts included in the measurement of operating lease liabilities	$ 14
Right-of-use assets obtained in exchange for operating lease obligations	5

COEX-
9.20

Supplemental balance sheet information related to leases was as follows:

	December 31, 2019
	(in millions)
Operating Leases	
Operating lease right-of-use assets	$ 289
Operating lease liabilities, current	$ 38
Operating lease liabilities, noncurrent	321
Total operating lease liabilities	$ 359
Weighted Average Remaining Lease Term	
Operating leases	9 years
Weighted Average Discount Rate	
Operating leases	4.55 %

Maturities of lease liabilities were as follows:

Years	Operating Leases
	(in millions)
2020	$ 53
2021	52
2022	49
2023	47
2024	47
Thereafter	191
Total lease payments	439
Less imputed interest	(80)
Total	$ 359

As of December 31, 2019, there have been no leases entered into that have not yet commenced.

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, 2019	$ 1,297	$ 464	$ 1,761
Acquisitions	—	—	—
Other adjustments (a)	7	—	7
Balance at December 31, 2019	$ 1,304	$ 464	$ 1,768

(a) Other adjustments during the three months ended December 31, 2019 represent foreign currency movements.

The Company performs its annual goodwill impairment test in accordance with ASC 350, *Intangibles—Goodwill and Other* (“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. No indicators of impairment were identified during the current period that required the Company to perform an interim assessment or recoverability test.

Intangible Assets

Intangible assets consist of the following:

	Weighted-Average Useful Life	December 31, 2019	September 30, 2019
		(in millions)	
Intangible assets subject to amortization:			
Recorded music catalog	10 years	$ 873	$ 855
Music publishing copyrights	26 years	1,563	1,539
Artist and songwriter contracts	13 years	854	841
Trademarks	18 years	54	53
Other intangible assets	7 years	61	59
Total gross intangible asset subject to amortization		3,405	3,347
Accumulated amortization		(1,693)	(1,624)
Total net intangible assets subject to amortization		1,712	1,723
Intangible assets not subject to amortization:			
Trademarks and tradenames	Indefinite	152	151
Total net intangible assets		$ 1,864	$ 1,874

7. Debt

Debt Capitalization

Long-term debt, all of which was issued by Acquisition Corp., consists of the following:

	December 31, 2019	September 30, 2019
	(in millions)	
Revolving Credit Facility (a)	$ —	$ —
Senior Term Loan Facility due 2023 (b)	1,314	1,313
5.000% Senior Secured Notes due 2023 (c)	298	298
4.125% Senior Secured Notes due 2024 (d)	342	336
4.875% Senior Secured Notes due 2024 (e)	218	218
3.625% Senior Secured Notes due 2026 (f)	495	488
5.500% Senior Notes due 2026 (g)	321	321
Total long-term debt, including the current portion (h)	$ 2,988	$ 2,974

(a) Reflects $180 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $13 million at both December 31, 2019 and September 30, 2019. There were no loans outstanding under the Revolving Credit Facility at December 31, 2019 or September 30, 2019.

(b) Principal amount of $1.326 billion at both December 31, 2019 and September 30, 2019 less unamortized discount of $3 million and $3 million and unamortized deferred financing costs of $9 million and $10 million at December 31, 2019 and September 30, 2019, respectively.

(c) Principal amount of $300 million less unamortized deferred financing costs of $2 million at both December 31, 2019 and September 30, 2019, respectively.

(d) Face amount of €311 million at both December 31, 2019 and September 30, 2019. Above amounts represent the dollar equivalent of such note at December 31, 2019 and September 30, 2019. Principal amount of $345 million and $340 million less unamortized deferred financing costs of $3 million and $4 million at December 31, 2019 and September 30, 2019, respectively.

(e) Principal amount of $220 million less unamortized deferred financing costs of $2 million at both December 31, 2019 and September 30, 2019, respectively.

(f) Face amount of €445 million at both December 31, 2019 and September 30, 2019. Above amounts represent the dollar equivalent of such note at December 31, 2019 and September 30, 2019. Principal amount of $494 million and $487 million at December 31, 2019 and September 30, 2019, respectively, an additional issuance premium of $8 million, less unamortized deferred financing costs of $7 million at both December 31, 2019 and September 30, 2019.

(g) Principal amount of $325 million less unamortized deferred financing costs of $4 million at both December 31, 2019 and September 30, 2019.

(h) Principal amount of debt of $3.010 billion and $2.998 billion, an additional issuance premium of $8 million and $8 million, less unamortized discount of $3 million and $3 million and unamortized deferred financing costs of $27 million and $29 million at December 31, 2019 and September 30, 2019, respectively.

3.625% Senior Secured Notes Offerings

On October 9, 2018, Acquisition Corp. issued and sold €250 million in aggregate principal amount of 3.625% Senior Secured Notes due 2026 (the "3.625% Secured Notes"). Net proceeds of the offering were used to pay the purchase price of the acquisition of EMP, to redeem €34.5 million of the 4.125% Secured Notes (as described below), purchase $30 million of the Company's 4.875% Senior Secured Notes (as described above) on the open market and to redeem $26.55 million of the 5.625% Senior Secured Notes (as described below).

On April 30, 2019, Acquisition Corp. issued and sold €195 million in aggregate principal amount of additional 3.625% Senior Secured Notes due 2026 (the "Additional Notes"). The Additional Notes and the 3.625% Secured Notes were treated as the same series for all purposes under the indenture that governs the 3.625% Secured Notes and the Additional Notes. Net proceeds of the offering were used to redeem all of the 5.625% Secured Notes due 2022.

Partial Redemption of 4.125% Senior Secured Notes

On October 12, 2018, Acquisition Corp. redeemed €34.5 million aggregate principal amount of its 4.125% Senior Secured Notes due 2024 (the "4.125% Secured Notes") using a portion of the proceeds from the offering of the 3.625% Secured Notes described above. The redemption price for the 4.125% Secured Notes was approximately €36.17 million, equivalent to 103% of the principal amount of the 4.125% Secured Notes, plus accrued but unpaid interest thereon to, but excluding, the redemption date, which was October 12, 2018. Following the partial redemption of the 4.125% Secured Notes, €310.5 million of the 4.125% Secured Notes remain outstanding. The Company recorded a loss on extinguishment of debt of approximately $2 million, which represents the premium paid on early redemption and unamortized deferred financing costs related to the partial redemption of this note.

Open Market Purchase

On October 9, 2018, Acquisition Corp. purchased, in the open market, $30 million aggregate principal amount of its outstanding 4.875% Senior Secured Notes due 2024 (the "4.875% Secured Notes"). The acquired notes were subsequently retired. Following retirement of the acquired notes, $220 million of the 4.875% Secured Notes remain outstanding. The Company recorded a loss on extinguishment of debt of less than $1 million, which represents the unamortized deferred financing costs related to the open market purchase.

Redemption of 5.625% Senior Secured Notes

On November 5, 2018, Acquisition Corp. redeemed $26.55 million aggregate principal amount of its 5.625% Senior Secured Notes due 2022 (the "5.625% Secured Notes"). The redemption price for the 5.625% Secured Notes was approximately $27.38 million, equivalent to 102.813% of the principal amount of the 5.625% Secured Notes, plus accrued but unpaid interest thereon to, but excluding, the redemption date, which was November 5, 2018. Following the partial redemption of the 5.625% Secured Notes, $220.95 million of the 5.625% Secured Notes remain outstanding. The Company recorded a loss on extinguishment of debt of approximately $1 million, which represents the premium paid on early redemption and unamortized deferred financing costs related to the partial redemption of this note.

On April 16, 2019, the Company issued a conditional notice of redemption for all of its 5.625% Secured Notes due 2022 currently outstanding. Settlement of the called 5.625% Secured Notes occurred on May 16, 2019. The Company recorded a loss on extinguishment of debt of approximately $4 million, which represents the premium paid on early redemption and unamortized deferred financing costs.

Interest Rates

The loans under the Revolving Credit Facility bear interest at Acquisition Corp.'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") subject to a zero floor, plus 1.75% 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, 0.75% 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 Acquisition Corp.'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") subject to a zero floor, plus 2.125% 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, 1.125% per annum. 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.

The Company has entered into, and in the future may enter into, interest rate swaps to manage interest rate risk. Please refer to Note 10 of our consolidated financial statements for further discussion.

Maturity of Senior Term Loan Facility

The loans outstanding under the Senior Term Loan Facility mature on November 1, 2023.

Maturity of Revolving Credit Facility

The maturity date of the Revolving Credit Facility is January 31, 2023.

Maturities of Senior Notes and Senior Secured Notes

As of December 31, 2019, there are no scheduled maturities of notes until 2023, when $300 million is scheduled to mature. Thereafter, $1.384 billion is scheduled to mature.

Interest Expense, net

Total interest expense, net was $33 million and $36 million for the three months ended December 31, 2019 and December 31, 2018, respectively. The weighted-average interest rate of the Company's total debt was 4.2% at December 31, 2019, 4.3% at September 30, 2019 and 4.7% at December 31, 2018.

8. Commitments and Contingencies

From time-to-time the Company is involved in claims and legal proceedings that arise in the ordinary course of business. The Company is currently subject to several such claims and legal proceedings. Based on currently available information, the Company does not believe that resolution of pending matters will have a material adverse effect on its financial condition, cash flows or results of operations. However, litigation is subject to inherent uncertainties, and there can be no assurances that the Company's defenses will be successful or that any such lawsuit or claim would not have a material adverse impact on the Company's business, financial condition, cash flows and results of operations in a particular period. Any claims or proceedings against the Company, whether meritorious or not, can have an adverse impact because of defense costs, diversion of management and operational resources, negative publicity and other factors.

9. Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("Tax Act"). The Tax Act significantly revised the U.S. federal corporate income tax provisions, including, but not limited to, an income inclusion of global intangible low-taxed income ("GILTI"), a deduction against foreign-derived intangible income ("FDII") and a new minimum tax, the base erosion anti-abuse tax ("BEAT"). GILTI, FDII and BEAT were effective for the Company's fiscal year ending September 30, 2019. The Company has elected to recognize the GILTI impact in the specific period in which it occurs.

As a result of final regulations regarding the interest expense allocation rules issued by the Internal Revenue Service in December 2019, the Company concluded that it is more likely than not that the entire amount of the Company's deferred tax assets relating to foreign tax credit carryforwards will be realized. Consequently, the Company released its $33 million valuation allowance at September 30, 2019 relating to such deferred tax assets and recognized a corresponding U.S. tax benefit of $33 million during the quarter ended December 31, 2019. The Company will continue to weigh the evidence including the projections of sufficient future

taxable income, foreign source income and the reversal of future taxable temporary differences to assess the future realization of our foreign tax credits.

For the three months ended December 31, 2019, the Company recorded an income tax expense of $5 million. The income tax expense for the three months ended December 31, 2019 is lower than the expected tax at the statutory tax rate of 21% primarily due to tax benefit of the valuation allowance release relating to foreign tax credit carryforwards and FDII, offset by non-deductible long term incentive plan, U.S. state and local taxes, foreign income taxed at rates higher than the U.S. statutory tax rate, withholding taxes and foreign losses with no tax benefit.

For the three months ended December 31, 2018, the Company recorded an income tax expense of $50 million. The income tax expense for the three months ended December 31, 2018 is higher than the expected tax at the statutory tax rate of 21% primarily due to GILTI, non-deductible long term incentive plan, U.S. state and local taxes, foreign income taxed at rates higher than the U.S. statutory tax rate, withholding taxes, foreign losses with no tax benefit offset by the tax benefit of a reduction in foreign income tax rates.

The Company has determined that it is reasonably possible that the gross unrecognized tax benefits as of December 31, 2019 could decrease by up to approximately $1 million related to various ongoing audits and settlement discussions in various foreign jurisdictions during the next twelve months.

10. Derivative Financial Instruments

The Company uses derivative financial instruments, primarily foreign currency forward exchange contracts and interest rate swaps, for the purposes of managing foreign currency exchange rate risk and interest rate risk on expected future cash flows. However, the Company may choose not to hedge certain exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange or interest 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 U.S. companies for the sale or licensing of U.S.-based music and merchandise 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, Australian dollar, Brazilian real, Korean won and Norwegian krone. The Company also may at times choose to hedge foreign currency risk associated with financing transactions such as third-party debt and other balance sheet items. The Company’s foreign currency forward exchange contracts have not been designated as hedges under the criteria prescribed in ASC 815. The Company records these contracts at fair value on its balance sheet and the related gains and losses are immediately recognized in the consolidated statement of operations where there is an offsetting entry related to the underlying exposure.

In prior periods, certain foreign currency forward exchange contracts were designated and qualified as cash flow hedges under the criteria prescribed in ASC 815. The Company recorded these contracts at fair value on its balance sheet and gains or losses on these contracts were deferred in equity (as a component of comprehensive loss). These deferred gains and losses were recognized in income in the period in which the related royalties and license fees being hedged were received and recognized in income. However, to the extent that any of these contracts were 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 were immediately recognized in the consolidated statement of operations.

The Company has entered into, and in the future may enter into, interest rate swaps to manage interest rate risk. These instruments may offset a portion of changes in income or expense, or changes in fair value of the Company’s long-term debt. The interest rate swap instruments 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).

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 13. 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’s hedged interest rate transactions as of December 31, 2019 are expected to be recognized within 4 years. The fair value of interest rate swaps is based on dealer quotes of market rates (i.e., Level 2 inputs) which is discussed further in Note 13.

Interest income or expense related to interest rate swaps is recognized in interest income, net in the same period as the related expense is recognized. The ineffective portions of interest rate swaps are recognized in other income/(expense), net in the period measured.

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 December 31, 2019, the Company had outstanding hedge contracts for the sale of $288 million and the purchase of $148 million of foreign currencies at fixed rates that will be settled by September 2020. As of December 31, 2019, the Company had no unrealized deferred gains or losses in comprehensive loss related to foreign exchange hedging. As of September 30, 2019, the Company had no outstanding hedge contracts and no deferred gains or losses in comprehensive loss related to foreign exchange hedging.

As of December 31, 2019, the Company had outstanding $820 million in pay-fixed receive-variable interest rate swaps with $5 million of unrealized deferred losses in comprehensive income related to the interest rate swaps. As of September 30, 2019, the Company had outstanding $820 million in pay-fixed receive-variable interest rate swaps with $8 million of unrealized deferred losses in comprehensive income related to the interest rate swaps.

The realized pre-tax losses and unrealized pre-tax losses of the Company's foreign exchange forward exchange contracts for the three months ended December 31, 2019 were $1 million and $3 million, respectively. These realized and unrealized losses were recorded in the consolidated statement of operations as other (expense) income. The realized pre-tax gains of the Company's foreign exchange forward contracts for the three months ended December 31, 2018 were nil. The unrealized pre-tax gains of the Company's foreign exchange forward contracts recorded in the consolidated statement of operations as other income were $5 million for the three months ended December 31, 2018. The unrealized pre-tax losses of the Company's foreign exchange forward contracts recorded in other comprehensive income were $3 million for the three months ended December 31, 2018.

The unrealized pre-tax gains of the Company's derivative interest rate swaps designated as cash flow hedges recorded in other comprehensive income during the three months ended December 31, 2019 was $4 million. The unrealized pre-tax losses of the Company's derivative interest rate swaps designated as cash flow hedges recorded in other comprehensive income during the three months ended December 31, 2018 was $6 million.

The following is a summary of amounts recorded in the consolidated balance sheets pertaining to the Company's derivative instruments at December 31, 2019 and September 30, 2019:

	December 31, 2019 (a)	September 30, 2019 (b)
	(in millions)	
Other current assets	$ —	$ —
Other current liabilities	(3)	—
Other noncurrent assets	4	2
Other noncurrent liabilities	(11)	(13)

(a) $5 million and $8 million of foreign exchange derivative contracts in asset and liability positions, respectively, and $4 million and $11 million of interest rate swaps in asset and liability positions, respectively.
(b) $2 million and $13 million of interest rate swaps in asset and liability positions, respectively.

11. 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.

COEX-
9.20

Three Months Ended	Recorded Music	Music Publishing	Corporate expenses and eliminations	Total
	(in millions)			
December 31, 2019				
Revenues	$ 1,084	$ 173	$ (1)	$ 1,256
Operating income (loss)	191	14	(40)	165
Amortization of intangible assets	29	18	—	47
Depreciation of property, plant and equipment	21	1	2	24
OIBDA	241	33	(38)	236
December 31, 2018				
Revenues	$ 1,041	$ 165	$ (3)	$ 1,203
Operating income (loss)	163	22	(38)	147
Amortization of intangible assets	38	16	—	54
Depreciation of property, plant and equipment	10	1	3	14
OIBDA	211	39	(35)	215

12. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $44 million and $42 million during the three months ended December 31, 2019 and December 31, 2018, respectively. The Company paid approximately $20 million of income and withholding taxes during the three months ended December 31, 2019 and paid approximately $7 million of income and withholding taxes during the three months ended December 31, 2018.

Dividends

The Company's ability to pay dividends is restricted by covenants in the indentures governing its notes and in the credit agreements for the Senior Term Loan Facility and the Revolving Credit Facility.

On December 16, 2019, the Company's board of directors declared a cash dividend of $37.5 million which was paid to stockholders on January 17, 2020 and recorded as an accrual as of December 31, 2019. On December 20, 2018, the Company's board of directors declared a cash dividend of $31.25 million which was accrued as of December 31, 2018 and paid to stockholders on January 4, 2019.

In the first quarter of fiscal year 2019, the Company instituted a regular quarterly dividend policy whereby it intends to pay a modest regular quarterly dividend in each fiscal quarter and a variable dividend for the fourth fiscal quarter in an amount commensurate with cash expected to be generated from operations in such fiscal year, in each case, after taking into account other potential uses for cash, including acquisitions, investment in our business and repayment of indebtedness. The declaration of each dividend will continue to be at the discretion of the Company's board.

Depreciation Expense

During the three months ended December 31, 2019, the Company recorded depreciation expense of $24 million, which included a one-time charge of $10 million representing the difference between the net book value of a building and its expected recoverable value.

13. Fair Value Measurements

ASC 820, *Fair Value Measurement* ("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 tables show the fair value of the Company's financial instruments that are required to be measured at fair value as of December 31, 2019 and September 30, 2019.

	Fair Value Measurements as of December 31, 2019			
	(Level 1)	(Level 2)	(Level 3)	Total
		(in millions)		
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)	$ —	$ (3)	$ —	$ (3)
Contractual Obligations (b)	—	—	(1)	(1)
Other Noncurrent Assets:				
Equity Method Investment (d)	—	38	—	38
Interest Rate Swap (c)	—	4	—	4
Other Noncurrent Liabilities:				
Interest Rate Swap (c)	—	(11)	—	(11)
Total	$ —	$ 28	$ (1)	$ 27

	Fair Value Measurements as of September 30, 2019			
	(Level 1)	(Level 2)	(Level 3)	Total
		(in millions)		
Other Current Liabilities:				
Contractual Obligations (b)	$ —	$ —	$ (9)	$ (9)
Other Noncurrent Assets:				
Equity Method Investment (d)	—	40	—	40
Interest Rate Swap	—	2	—	2
Other Noncurrent Liabilities:				
Interest Rate Swap	—	(13)	—	(13)
Total	$ —	$ 29	$ (9)	$ 20

(a) The fair value of foreign currency forward exchange contracts is based on dealer quotes of market forward rates and reflects the amount that the Company would receive or pay at their maturity dates for contracts involving the same currencies and maturity dates.

(b) This represents purchase obligations and contingent consideration related to the Company's various acquisitions. This is based on a probability weighted performance 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.

(c) The fair value of the interest rate swap is based on dealer quotes of market forward rates and reflects the amount that the Company would receive or pay as of December 31, 2019 for contracts involving the same attributes and maturity dates.

(d) The fair value of equity method investment represents an equity method investment acquired in fiscal 2019 whereby the Company has elected the fair value option under ASC 825, *Financial Instruments* ("ASC 825"). The valuation is based upon quoted prices in active markets and model-based valuation techniques to determine fair value.

COEX-
9.20

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, 2019	$ (9)
Additions	—
Reductions	7
Payments	1
Balance at December 31, 2019	$ (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.

Equity Investments Without Readily Determinable Fair Value

The Company evaluates its equity investments without readily determinable fair values for impairment if factors indicate that a significant decrease in value has occurred. The Company has elected to use the measurement alternative to fair value that will allow these investments to be recorded at cost, less impairment, and adjusted for subsequent observable price changes. The Company did not record any impairment charges on these investments during the three months ended December 31, 2019. In addition, there were no observable price changes events that were completed during the three months ended December 31, 2019.

Fair Value of Debt

Based on the level of interest rates prevailing at December 31, 2019, the fair value of the Company's debt was $3.096 billion. Based on the level of interest rates prevailing at September 30, 2019, the fair value of the Company's debt was $3.080 billion. The fair value of the Company's debt instruments is 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.

COEX-
9.20

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. As of December 31, 2019 Acquisition Corp. had issued and outstanding the 5.000% Senior Secured Notes due 2023, the 4.125% Senior Secured Notes due 2024, the 4.875% Senior Secured Notes due 2024, the 3.625% Senior Secured Notes due 2026 and the 5.500% Senior Notes due 2026 (together, the "Acquisition Corp. Notes").

The Acquisition Corp. Notes are 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 is full, unconditional and 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 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, including the Revolving Credit Facility and the Senior Term Loan Facility.

COEX-
9.20

Consolidating Balance Sheet (Unaudited)
December 31, 2019

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Assets									
Current assets:									
Cash and equivalents	$ —	$ 184	$ 278	$ —	$ 462	$ —	$ —	$ —	$ 462
Accounts receivable, net	—	390	492	—	882	—	—	—	882
Inventories	—	13	52	—	65	—	—	—	65
Royalty advances expected to be recouped within one year	—	119	70	—	189	—	—	—	189
Prepaid and other current assets	—	15	43	—	58	—	—	—	58
Total current assets	—	721	935	—	1,656	—	—	—	1,656
Due from (to) parent companies	475	(659)	184	—	—	—	—	—	—
Investments in and advances to consolidated subsidiaries	2,348	2,710	—	(5,058)	—	805	805	(1,610)	—
Royalty advances expected to be recouped after one year	—	146	85	—	231	—	—	—	231
Property, plant and equipment, net	—	190	105	—	295	—	—	—	295
Operating lease right-of-use assets, net	—	211	78	—	289	—	—	—	289
Goodwill	—	1,370	398	—	1,768	—	—	—	1,768
Intangible assets subject to amortization, net	—	870	842	—	1,712	—	—	—	1,712
Intangible assets not subject to amortization	—	72	80	—	152	—	—	—	152
Deferred tax assets, net	—	51	8	—	59	—	—	—	59
Other assets	9	119	24	—	152	—	—	—	152
Total assets	$ 2,832	$ 5,801	$ 2,739	$ (5,058)	$ 6,314	$ 805	$ 805	$ (1,610)	$ 6,314
Liabilities and Equity									
Current liabilities:									
Accounts payable	$ —	$ 109	$ 93	$ —	$ 202	$ —	$ —	$ —	$ 202
Accrued royalties	—	777	894	—	1,671	—	—	—	1,671
Accrued liabilities	—	303	246	—	549	—	—	—	549
Accrued interest	23	—	—	—	23	—	—	—	23
Operating lease liabilities, current	—	21	17	—	38	—	—	—	38
Deferred revenue	—	35	124	—	159	—	—	—	159
Other current liabilities	—	53	104	—	157	—	—	—	157
Total current liabilities	23	1,298	1,478	—	2,799	—	—	—	2,799
Long-term debt	2,988	—	—	—	2,988	—	—	—	2,988
Operating lease liabilities, noncurrent	—	259	62	—	321	—	—	—	321
Deferred tax liabilities, net	—	—	171	—	171	—	—	—	171
Other noncurrent liabilities	11	94	99	—	204	—	—	—	204
Total liabilities	3,022	1,651	1,810	—	6,483	—	—	—	6,483
Total Warner Music Group Corp. (deficit) equity	(190)	4,146	912	(5,058)	(190)	805	805	(1,610)	(190)
Noncontrolling interest	—	4	17	—	21	—	—	—	21
Total equity	(190)	4,150	929	(5,058)	(169)	805	805	(1,610)	(169)
Total liabilities and equity	$ 2,832	$ 5,801	$ 2,739	$ (5,058)	$ 6,314	$ 805	$ 805	$ (1,610)	$ 6,314

COEX-
9.20

Consolidating Balance Sheet
September 30, 2019

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Assets									
Current assets:									
Cash and equivalents	$ —	$ 386	$ 233	$ —	$ 619	$ —	$ —	$ —	$ 619
Accounts receivable, net	—	334	441	—	775	—	—	—	775
Inventories	—	11	63	—	74	—	—	—	74
Royalty advances expected to be recouped within one year	—	112	58	—	170	—	—	—	170
Prepaid and other current assets	—	12	41	—	53	—	—	—	53
Total current assets	—	855	836	—	1,691	—	—	—	1,691
Due from (to) parent companies	458	(531)	73	—	—	—	—	—	—
Investments in and advances to consolidated subsidiaries	2,272	2,567	—	(4,839)	—	878	878	(1,756)	—
Royalty advances expected to be recouped after one year	—	137	71	—	208	—	—	—	208
Property, plant and equipment, net	—	200	100	—	300	—	—	—	300
Goodwill	—	1,370	391	—	1,761	—	—	—	1,761
Intangible assets subject to amortization, net	—	884	839	—	1,723	—	—	—	1,723
Intangible assets not subject to amortization	—	71	80	—	151	—	—	—	151
Deferred tax assets, net	—	30	8	—	38	—	—	—	38
Other assets	7	115	23	—	145	—	—	—	145
Total assets	$ 2,737	$ 5,698	$ 2,421	$ (4,839)	$ 6,017	$ 878	$ 878	$ (1,756)	$ 6,017
Liabilities and Equity									
Current liabilities:									
Accounts payable	$ —	$ 160	$ 100	$ —	$ 260	$ —	$ —	$ —	$ 260
Accrued royalties	4	813	750	—	1,567	—	—	—	1,567
Accrued liabilities	—	266	226	—	492	—	—	—	492
Accrued interest	34	—	—	—	34	—	—	—	34
Deferred revenue	—	42	138	—	180	—	—	—	180
Other current liabilities	—	221	65	—	286	—	—	—	286
Total current liabilities	38	1,502	1,279	—	2,819	—	—	—	2,819
Long-term debt	2,974	—	—	—	2,974	—	—	—	2,974
Deferred tax liabilities, net	—	—	172	—	172	—	—	—	172
Other noncurrent liabilities	14	200	107	—	321	—	—	—	321
Total liabilities	3,026	1,702	1,558	—	6,286	—	—	—	6,286
Total Warner Music Group Corp. (deficit) equity	(289)	3,992	847	(4,839)	(289)	878	878	(1,756)	(289)
Noncontrolling interest	—	4	16	—	20	—	—	—	20
Total equity	(289)	3,996	863	(4,839)	(269)	878	878	(1,756)	(269)
Total liabilities and equity	$ 2,737	$ 5,698	$ 2,421	$ (4,839)	$ 6,017	$ 878	$ 878	$ (1,756)	$ 6,017

COEX-
9.20

Consolidating Statement of Operations (Unaudited)
For The Three Months Ended December 31, 2019

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Revenue	$ —	$ 574	$ 804	$ (122)	$ 1,256	$ —	$ —	$ —	$ 1,256
Costs and expenses:									
Cost of revenue	—	(307)	(447)	89	(665)	—	—	—	(665)
Selling, general and administrative expenses	—	(177)	(235)	33	(379)	—	—	—	(379)
Amortization of intangible assets	—	(22)	(25)	—	(47)	—	—	—	(47)
Total costs and expenses	—	(506)	(707)	122	(1,091)	—	—	—	(1,091)
Operating income	—	68	97	—	165	—	—	—	165
Interest expense, net	(31)	—	(2)	—	(33)	—	—	—	(33)
Equity gains from equity method investments	154	86	—	(240)	—	120	120	(240)	—
Other income (expense), net	2	1	(8)	—	(5)	—	—	—	(5)
Income before income taxes	125	155	87	(240)	127	120	120	(240)	127
Income tax expense	(5)	(1)	(23)	24	(5)	—	—	—	(5)
Net income	120	154	64	(216)	122	120	120	(240)	122
Less: Income attributable to noncontrolling interest	—	—	(2)	—	(2)	—	—	—	(2)
Net income attributable to Warner Music Group Corp.	$ 120	$ 154	$ 62	$ (216)	$ 120	$ 120	$ 120	$ (240)	$ 120

COEX-
9.20

Consolidating Statement of Operations (Unaudited)
For The Three Months Ended December 31, 2018

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Revenue	$ —	$ 481	$ 854	$ (132)	$ 1,203	$ —	$ —	$ —	$ 1,203
Costs and expenses:									
Cost of revenue	—	(223)	(505)	102	(626)	—	—	—	(626)
Selling, general and administrative expenses	—	(189)	(217)	30	(376)	—	—	—	(376)
Amortization of intangible assets	—	(25)	(29)	—	(54)	—	—	—	(54)
Total costs and expenses	—	(437)	(751)	132	(1,056)	—	—	—	(1,056)
Operating income	—	44	103	—	147	—	—	—	147
Loss on extinguishment of debt	(3)	—	—	—	(3)	—	—	—	(3)
Interest (expense) income, net	(31)	1	(6)	—	(36)	—	—	—	(36)
Equity gains from equity method investments	172	109	—	(281)	—	86	86	(172)	—
Other (expense) income, net	(2)	19	11	—	28	—	—	—	28
Income before income taxes	136	173	108	(281)	136	86	86	(172)	136
Income tax expense	(50)	(45)	(24)	69	(50)	—	—	—	(50)
Net income	86	128	84	(212)	86	86	86	(172)	86
Less: Income attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—
Net income attributable to Warner Music Group Corp.	$ 86	$ 128	$ 84	$ (212)	$ 86	$ 86	$ 86	$ (172)	$ 86

COEX-
9.20

Consolidating Statement of Comprehensive Income (Unaudited)
For The Three Months Ended December 31, 2019

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net income	$ 120	$ 154	$ 64	$ (216)	$ 122	$ 120	$ 120	$ (240)	$ 122
Other comprehensive income (loss), net of tax:									
Foreign currency adjustment	7	—	(7)	7	7	43	43	(86)	7
Deferred gain on derivatives	3	—	3	(3)	3	15	15	(30)	3
Other comprehensive income (loss), net of tax	10	—	(4)	4	10	58	58	(116)	10
Total comprehensive income	130	154	60	(212)	132	178	178	(356)	132
Less: Income attributable to noncontrolling interest	—	—	(2)	—	(2)	—	—	—	(2)
Comprehensive income attributable to Warner Music Group Corp.	$ 130	$ 154	$ 58	$ (212)	$ 130	$ 178	$ 178	$ (356)	$ 130

COEX-
9.20

Consolidating Statement of Comprehensive Income (Unaudited)
For The Three Months Ended December 31, 2018

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
	(in millions)								
Net income	$ 86	$ 128	$ 84	$ (212)	$ 86	$ 86	$ 86	$ (172)	$ 86
Other comprehensive (loss) income, net of tax:									
Foreign currency adjustment	(16)	—	16	(16)	(16)	(16)	(16)	32	(16)
Deferred losses on derivatives	(6)	—	(2)	2	(6)	(6)	(6)	12	(6)
Other comprehensive (loss) income, net of tax	(22)	—	14	(14)	(22)	(22)	(22)	44	(22)
Total comprehensive income	64	128	98	(226)	64	64	64	(128)	64
Less: Income attributable to noncontrolling interest	—	—	—	—	—	—	—	—	—
Comprehensive income attributable to Warner Music Group Corp.	$ 64	$ 128	$ 98	$ (226)	$ 64	$ 64	$ 64	$ (128)	$ 64

COEX-
9.20

Consolidating Statement of Cash Flows (Unaudited)
For The Three Months Ended December 31, 2019

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Cash flows from operating activities									
Net income	$ 120	$ 154	$ 64	$ (216)	$ 122	$ 120	$ 120	$ (240)	$ 122
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation and amortization	—	43	28	—	71	—	—	—	71
Unrealized gains and remeasurement of foreign denominated loans	12	2	(9)	—	5	—	—	—	5
Deferred income taxes	—	—	(29)	—	(29)	—	—	—	(29)
Net gain on investments	—	1	—	—	1	—	—	—	1
Non-cash interest expense	1	—	—	—	1	—	—	—	1
Equity-based compensation expense	—	(7)	—	—	(7)	—	—	—	(7)
Equity gains, including distributions	(154)	(86)	—	240	—	(120)	(120)	240	—
Changes in operating assets and liabilities:									
Accounts receivable, net	—	(57)	(44)	—	(101)	—	—	—	(101)
Inventories	—	(1)	11	—	10	—	—	—	10
Royalty advances	—	(16)	(22)	—	(38)	—	—	—	(38)
Accounts payable and accrued liabilities	—	92	(112)	(24)	(44)	—	—	—	(44)
Royalty payables	—	(38)	122	—	84	—	—	—	84
Accrued interest	(11)	—	—	—	(11)	—	—	—	(11)
Operating lease liabilities	—	1	—	—	1	—	—	—	1
Deferred revenue	—	(6)	(15)	—	(21)	—	—	—	(21)
Other balance sheet changes	(1)	(27)	62	—	34	—	—	—	34
Net cash (used in) provided by operating activities	(33)	55	56	—	78	—	—	—	78
Cash flows from investing activities									
Acquisition of music publishing rights, net	—	(8)	(3)	—	(11)	—	—	—	(11)
Capital expenditures	—	(8)	(7)	—	(15)	—	—	—	(15)
Investments and acquisitions of businesses, net	—	(2)	(4)	—	(6)	—	—	—	(6)
Advances from issuer	33	—	—	(33)	—	—	—	—	—
Net cash provided by (used in) investing activities	33	(18)	(14)	(33)	(32)	—	—	—	(32)
Cash flows from financing activities									
Dividend by Acquisition Corp. to Holdings Corp.	—	(206)	—	—	(206)	—	—	—	(206)
Distribution to noncontrolling interest holder	—	—	(1)	—	(1)	—	—	—	(1)
Change in due (from) to issuer	—	(33)	—	33	—	—	—	—	—
Net cash (used in) provided by financing activities	—	(239)	(1)	33	(207)	—	—	—	(207)
Effect of exchange rate changes on cash and equivalents	—	—	4	—	4	—	—	—	4
Net decrease (increase) in cash and equivalents	—	(202)	45	—	(157)	—	—	—	(157)
Cash and equivalents at beginning of period	—	386	233	—	619	—	—	—	619
Cash and equivalents at end of period	$ —	$ 184	$ 278	$ —	$ 462	$ —	$ —	$ —	$ 462

COEX-
9.20

Consolidating Statement of Cash Flows (Unaudited)
For The Three Months Ended December 31, 2018

	WMG Acquisition Corp. (issuer)	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	WMG Acquisition Corp. Consolidated	WMG Holdings Corp.	Warner Music Group Corp.	Eliminations	Warner Music Group Corp. Consolidated
					(in millions)				
Cash flows from operating activities									
Net income	$ 86	$ 128	$ 84	$ (212)	$ 86	$ 86	$ 86	$ (172)	$ 86
Adjustments to reconcile net income to net cash provided by operating activities:									
Depreciation and amortization	—	34	34	—	68	—	—	—	68
Unrealized gains and remeasurement of foreign denominated loans	(10)	(4)	—	1	(13)	—	—	—	(13)
Deferred income taxes	—	—	11	—	11	—	—	—	11
Loss on extinguishment of debt	3	—	—	—	3	—	—	—	3
Net gain on investments	—	(15)	—	—	(15)	—	—	—	(15)
Non-cash interest expense	2	—	—	—	2	—	—	—	2
Equity-based compensation expense	—	12	—	—	12	—	—	—	12
Equity gains, including distributions	(172)	(109)	—	281	—	(86)	(86)	172	—
Changes in operating assets and liabilities:									
Accounts receivable, net	—	(3)	(85)	—	(88)	—	—	—	(88)
Inventories	—	2	11	—	13	—	—	—	13
Royalty advances	—	(15)	(13)	—	(28)	—	—	—	(28)
Accounts payable and accrued liabilities	—	64	(86)	(70)	(92)	—	—	—	(92)
Royalty payables	—	(91)	183	—	92	—	—	—	92
Accrued interest	(7)	—	—	—	(7)	—	—	—	(7)
Deferred revenue	—	3	(8)	—	(5)	—	—	—	(5)
Other balance sheet changes	4	24	25	—	53	—	—	—	53
Net cash (used in) provided by operating activities	(94)	30	156	—	92	—	—	—	92
Cash flows from investing activities									
Acquisition of music publishing rights, net	—	(4)	(1)	—	(5)	—	—	—	(5)
Capital expenditures	—	(22)	(4)	—	(26)	—	—	—	(26)
Investments and acquisitions of businesses, net	—	(23)	(184)	—	(207)	—	—	—	(207)
Proceeds from the sale of investments	—	—	—	—	—	—	—	—	—
Advances from issuer	(84)	—	—	84	—	—	—	—	—
Net cash used in investing activities	(84)	(49)	(189)	84	(238)	—	—	—	(238)
Cash flows from financing activities									
Proceeds from issuance of Acquisition Corp. 3.625% Senior Notes due 2026	287	—	—	—	287	—	—	—	287
Repayment of Acquisition Corp. 4.125% Senior Secured Notes	(40)	—	—	—	(40)	—	—	—	(40)
Repayment of Acquisition Corp. 4.875% Senior Secured Notes	(30)	—	—	—	(30)	—	—	—	(30)
Repayment of Acquisition Corp. 5.625% Senior Secured Notes	(27)	—	—	—	(27)	—	—	—	(27)
Call premiums paid on and redemption deposit for early redemption of debt	(2)	—	—	—	(2)	—	—	—	(2)
Deferred financing costs paid	(4)	—	—	—	(4)	—	—	—	(4)
Distribution to noncontrolling interest holder	—	(1)	(1)	—	(2)	—	—	—	(2)
Dividends paid	—	—	—	—	—	—	—	—	—
Change in due to (from) issuer	—	84	—	(84)	—	—	—	—	—
Net cash provided by (used in) financing activities	184	83	(1)	(84)	182	—	—	—	182
Effect of exchange rate changes on cash and equivalents	—	—	(2)	—	(2)	—	—	—	(2)
Net increase (decrease) in cash and equivalents	6	64	(36)	—	34	—	—	—	34
Cash and equivalents at beginning of period	—	169	345	—	514	—	—	—	514
Cash and equivalents at end of period	$ 6	$ 233	$ 309	$ —	$ 548	$ —	$ —	$ —	$ 548

ITEM 2. 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 unaudited interim financial statements included elsewhere in this Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2019 (the "Quarterly Report").

"SAFE HARBOR" STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly 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 (the "Exchange Act"). All statements other than statements of historical facts included in this Quarterly Report, including, without limitation, statements regarding our future financial position, business strategy, 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, our ability to compete in the highly competitive markets in which we operate, 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 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, our success in limiting piracy, 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 or retire 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 Quarterly Report. Additionally, important factors could cause our actual results to differ materially from the forward-looking statements we make in this Quarterly Report. As stated elsewhere in this Quarterly Report, such risks, uncertainties and other important factors include, among others:

- the failure of the digital portion of the global recorded music industry to grow or grow at a significant rate to offset declines in the physical portion of the global recorded 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 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, cash flows and valuation of our common stock 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;
- a significant portion of our revenues are 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;
- 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 information technology (“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 Industries, Inc. (“Access”), which, together with its affiliates, 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, including as a result of the Tax Cuts and Jobs Act; and
- risks related to other factors discussed under “Risk Factors” of this Quarterly Report and in our Annual Report on Form 10-K for the fiscal year ended September 30, 2019.

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 "Risk Factors" section of this Quarterly 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 Quarterly Report and are expressly qualified in their entirety by the cautionary statements included in this Quarterly 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 entertainment 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. and 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 unaudited 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:

- *Business 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 comparability and in anticipating future trends.
- *Results of operations.* This section provides an analysis of our results of operations for the three months ended December 31, 2019 and December 31, 2018. 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 three months ended December 31, 2019 and December 31, 2018, as well as a discussion of our financial condition and liquidity as of December 31, 2019. The discussion of our financial condition and liquidity includes a summary of the key debt covenant compliance measures under our debt agreements.

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 ("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 and other non-operating income (loss). Accordingly, OIBDA should be considered in addition to, not as a substitute for, operating income (loss), net income (loss) attributable to Warner Music Group Corp. and other measures of financial performance reported in accordance with United States generally accepted accounting principles ("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 (loss) 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 results 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 revenue 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." This revenue 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 it, 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.

BUSINESS OVERVIEW

We are one of the world's leading music entertainment companies. Our renowned family of iconic record labels, including Atlantic Records, Warner Records, Elektra Records and Parlophone Records, is home to many of the most popular and influential recording artists. In addition, Warner Chappell Music, our global music publishing business, boasts an extraordinary catalog that includes timeless standards and contemporary hits, representing works by over 80,000 songwriters and composers, with a global collection of more than 1.4 million musical compositions. 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.

Components of Our Operating Results

Recorded Music Operations

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

In the United States, our Recorded Music business is conducted principally through our major record labels—Atlantic Records and Warner Records. In October 2018, we launched Elektra Music Group in the United States as a standalone label group, which comprises the Elektra, Fueled by Ramen and Roadrunner labels. Our Recorded Music business also includes Rhino Entertainment, a division that specializes in marketing our recorded music catalog through compilations, reissuances of previously released music and video titles and releasing previously unreleased material from our vault. We also conduct our Recorded Music business through a collection of additional record labels including Asylum, Big Beat, Canvasback, East West, Erato, FFRR, Nonesuch, Parlophone, Reprise, Sire, Spinnin', Warner Classics and Warner Music Nashville.

Outside the United States, our Recorded Music business is conducted in more than 70 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, selling, marketing and promoting their music. In most cases, we also market, promote, distribute and sell the music of those recording artists for whom our domestic record labels have international rights. In certain smaller markets, we license the right to distribute and sell our music to non-affiliated third-party record labels.

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

In addition to our music being sold in physical retail outlets, our music is also sold in physical form to online physical retailers, such as Amazon.com, barnesandnoble.com and bestbuy.com, and distributed in digital form to an expanded universe of digital partners, including streaming services such as those of Amazon, Apple, Deezer, SoundCloud, Spotify, Tencent Music Entertainment Group and YouTube, radio services such as iHeart Radio and SiriusXM and download services such as Apple's iTunes and Google Play.

We have integrated the marketing of digital content into all aspects of our business, including artist and repertoire ("A&R") and distribution. Our business development executives work closely with A&R departments to ensure that while music 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 attributable to each distribution channel varies by region and proportions may change as the introduction of new technologies continues. As one of the world's largest music entertainment companies, 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 such artists in other aspects of their careers. Under these agreements, we provide services to and participate in recording artists' activities outside the traditional recorded music business such as touring, merchandising and sponsorships. We have built and acquired artist services capabilities and platforms for marketing and distributing 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 merchandising, VIP ticketing, fan clubs, 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 our recording artists and allows us to more effectively connect recording artists and fans.

Recorded Music revenues are derived from four main sources:

- *Digital*: the rightsholder receives revenues with respect to streaming and download services;
- *Physical*: the rightsholder receives revenues with respect to sales of physical products such as vinyl, CDs and DVDs;
- *Artist services and expanded-rights*: the rightsholder receives revenues with respect to our artist services businesses and our participation in expanded rights associated with our recording 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 video games; 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 business are as follows:

- *A&R costs:* the costs associated with (i) paying royalties to recording artists, producers, songwriters, other copyright holders and trade unions; (ii) signing and developing recording 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 recording artists and music, 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 marketing, promoting, distributing and licensing a particular recording of a musical composition, Music Publishing is an intellectual property business focused on generating revenue from uses of the musical 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 musical compositions.

The operations of our Music Publishing business are conducted principally through Warner Chappell Music, our global music publishing company headquartered in Los Angeles with operations in over 70 countries through various subsidiaries, affiliates and non-affiliated licensees. We own or control rights to more than 1.4 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 80,000 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 and gospel. Warner Chappell Music also administers the music and soundtracks of several third-party television and film producers and studios. We have an extensive production music catalog collectively branded as Warner Chappell Production Music.

Music Publishing revenues are derived from five main sources:

- *Performance:* the rightsholder receives revenues if the musical 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;
- *Digital:* the rightsholder receives revenues with respect to musical compositions embodied in recordings distributed in streaming services, download services and other digital music services;
- *Mechanical:* the rightsholder receives revenues with respect to musical compositions embodied in recordings sold in any physical format or configuration such as vinyl, CDs and DVDs;
- *Synchronization:* the rightsholder receives revenues for the right to use the musical composition in combination with visual images such as in films or television programs, television commercials and video games as well as from other uses such as in toys or novelty items and merchandise; and

- *Other:* the rightsholder receives revenues for use in sheet music and other uses.

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

- *A&R costs:* the costs associated with (i) paying royalties to songwriters, co-publishers and other copyright holders in connection with income generated from the uses of their works and (ii) signing and developing songwriters; and
- *Selling and marketing, general overhead and other administrative expenses:* the costs associated with selling and marketing, general overhead and other administrative expenses.

Other Business Models to Drive Incremental Revenue

Artist Services and Expanded-Rights Deals

As the recorded music industry has continued to transition to a business model through which the majority of revenues are generated from streaming, for many years we have signed recording artists to expanded-rights deals. Under our expanded-rights deals, we also participate in the recording artist's revenue streams, in addition to recorded music sales, such as touring, merchandising and sponsorships. In addition to signing recording artists to expanded-rights deals, we have continued to make strategic investments to expand our Recorded Music business and open up new opportunities for our recording artists. 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 15% of our total revenues during the three months ended December 31, 2019. Artist services and expanded-rights revenue will fluctuate from period to period depending upon recording artists' touring schedules, among other things. Margins for the various artist services and expanded-rights revenue streams can vary significantly as well. 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 management and revenue from participation in touring and sponsorships under our expanded-rights deals are all high margin, while revenue under our expanded-rights deals and revenue from some of our artist services businesses such as merchandising tend to be lower margin than our traditional revenue streams in our Recorded Music business.

COEX-
9.20

RESULTS OF OPERATIONS

Three Months Ended December 31, 2019 Compared with Three Months Ended December 31, 2018

Consolidated Results

Revenues

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

	For the Three Months Ended December 31,		*2019 vs. 2018*	
	2019	**2018**	**$ Change**	**% Change**
Revenue by Type				
Digital	$ 633	$ 563	$ 70	12 %
Physical	184	231	(47)	-20 %
Total Digital and Physical	817	794	23	3 %
Artist services and expanded-rights	188	166	22	13 %
Licensing	79	81	(2)	-2 %
Total Recorded Music	1,084	1,041	43	4 %
Performance	46	53	(7)	-13 %
Digital	73	65	8	12 %
Mechanical	15	15	—	— %
Synchronization	36	29	7	24 %
Other	3	3	—	— %
Total Music Publishing	173	165	8	5 %
Intersegment eliminations	(1)	(3)	2	-67 %
Total Revenues	$ 1,256	$ 1,203	$ 53	4 %
Revenue by Geographical Location				
U.S. Recorded Music	$ 453	$ 431	$ 22	5 %
U.S. Music Publishing	81	73	8	11 %
Total U.S.	534	504	30	6 %
International Recorded Music	631	610	21	3 %
International Music Publishing	92	92	—	— %
Total International	723	702	21	3 %
Intersegment eliminations	(1)	(3)	2	-67 %
Total Revenues	$ 1,256	$ 1,203	$ 53	4 %

Total Revenues

Total revenues increased by $53 million, or 4%, to $1,256 million for the three months ended December 31, 2019 from $1,203 million for the three months ended December 31, 2018. The increase includes $12 million of unfavorable currency exchange fluctuations. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 86% and 14% of total revenue for both the three months ended December 31, 2019 and December 31, 2018, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 42% and 58% of total revenues for both the three months ended December 31, 2019 and December 31, 2018, respectively.

Total digital revenues after intersegment eliminations increased by $79 million, or 13%, to $706 million for the three months ended December 31, 2019 from $627 million for the three months ended December 31, 2018. Total digital revenues represented 56% and 52% of consolidated revenues for the three months ended December 31, 2019 and December 31, 2018, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended December 31, 2019 were comprised of U.S. revenues of $380 million and international revenues of $326 million, or 54% and 46% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended December 31, 2018 were comprised of U.S. revenues of $330 million and international revenues of $298 million, or 53% and 47% of total digital revenues, respectively.

Recorded Music revenues increased by $43 million, or 4%, to $1,084 million for the three months ended December 31, 2019 from $1,041 million for the three months ended December 31, 2018. The increase includes $10 million of unfavorable currency exchange fluctuations. U.S. Recorded Music revenues were $453 million and $431 million, or 42% and 41%, of consolidated Recorded Music revenues for the three months ended December 31, 2019 and December 31, 2018, respectively. International Recorded Music revenues were $631 million and $610 million, or 58% and 59%, of consolidated Recorded Music revenues for the three months ended December 31, 2019 and December 31, 2018, respectively.

The overall increase in Recorded Music revenue was driven by increases in digital revenue and artist services and expanded-rights revenue partially offset by decreases in physical and licensing revenue. Digital revenue increased by $70 million as a result of the continued growth in streaming services and strength of releases, which includes new releases from TWICE and Coldplay as well as carryover success from Ed Sheeran and Lizzo. Revenue from streaming services grew by $87 million to $589 million for the three months ended December 31, 2019 from $502 million for the three months ended December 31, 2018. Digital revenue growth was partially offset by decreases in digital download and other digital declines of $17 million to $44 million for the three months ended December 31, 2019 from $61 million for the three months ended December 31, 2018 due to the continued shift to streaming services. Artist services and expanded-rights revenue increased by $22 million primarily due to higher advertising revenues and timing of tours in France. Physical revenue decreased by $47 million primarily due to the continued shift from physical revenue to digital revenue, timing of releases and prior year success of Johnny Hallyday. Licensing revenue decreased by $2 million primarily related to unfavorable foreign exchange rates and higher broadcast fees in the prior year.

Music Publishing revenues increased by $8 million, or 5%, to $173 million for the three months ended December 31, 2019 from $165 million for the three months ended December 31, 2018. U.S. Music Publishing revenues were $81 million and $73 million, or 47% and 44%, of consolidated Music Publishing revenues for the three months ended December 31, 2019 and December 31, 2018, respectively. International Music Publishing revenues remained flat at $92 million, or 53% and 56%, of consolidated Music Publishing revenues for the three months ended December 31, 2019 and December 31, 2018, respectively.

The overall increase in Music Publishing revenue was mainly driven by increases in digital revenue of $8 million and synchronization revenue of $7 million, partially offset by decreases in performance revenue of $7 million. The increase in digital revenue is primarily due to increases in streaming revenue driven by the continued growth in streaming services. The increase in synchronization revenue is attributable to higher TV and commercial income. The decline in performance revenue is driven by timing of distributions.

Revenue by Geographical Location

U.S. revenue increased by $30 million, or 6%, to $534 million for the three months ended December 31, 2019 from $504 million for the three months ended December 31, 2018. U.S. Recorded Music revenue increased by $22 million, or 5%. The primary driver was the increase in U.S. Recorded Music digital revenue, which increased by $43 million driven by the continued growth in streaming services. Streaming revenue increased by $53 million, partially offset by $10 million of digital download and other digital declines. Partially offsetting this increase is a decrease of U.S. Recorded Music physical revenue for $25 million driven by general market decline and timing of releases. U.S. Music Publishing revenue increased by $8 million, or 11%, to $81 million for the three months ended December 31, 2019 from $73 million for the three months ended December 31, 2018. This was primarily driven by the increase in U.S. Music Publishing of $7 million in digital revenue due to the continued growth in streaming services and the increase in synchronization revenue of $3 million due to higher TV and commercial income, partially offset by decreases in performance revenue of $2 million due to timing of distributions.

International revenue increased by $21 million, or 3%, to $723 million for the three months ended December 31, 2019 from $702 million for the three months ended December 31, 2018. Excluding the unfavorable impact of foreign currency exchange rates, International revenue increased by $33 million or 5%. International Recorded Music revenue increased $21 million primarily due to increases in digital revenue of $27 million, artist services and expanded-rights revenue of $24 million, partially offset by decreases in physical revenue of $22 million and licensing revenue of $8 million. The increase in International Recorded Music digital revenue was due to continued growth in streaming services internationally, partially offset by a decline in digital downloads. International Recorded Music artist services and expanded-rights revenue increased $24 million due to higher advertising revenues and timing of tours in France. International Recorded Music physical revenue decreased by $22 million due to the continued shift from physical revenue to digital revenue, timing of releases and prior year success of Johnny Hallyday. International Recorded Music licensing revenue decreased $8 million primarily related to unfavorable foreign currency exchange rates and higher broadcast fees in the prior year. International Music Publishing revenue remained flat to prior year at $92 million for both the three months ended December 31, 2019 and December 31, 2018. This was primarily driven by an increases in synchronization revenue of $4 million due to higher TV and commercial income and digital revenue of $1 million offset by decreases of performance revenue of $5 million primarily due to timing of distributions.

COEX-
9.20

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

	For the Three Months Ended December 31,		2019 vs. 2018	
	2019	2018	$ Change	% Change
Artist and repertoire costs	$ 411	$ 400	$ 11	3 %
Product costs	254	226	28	12 %
Total cost of revenues	$ 665	$ 626	$ 39	6 %

Artist and repertoire costs increased by $11 million, to $411 million for the three months ended December 31, 2019 from $400 million for the three months ended December 31, 2018. Artist and repertoire costs as a percentage of revenue remained constant at 33% for both the three months ended December 31, 2019 and December 31, 2018.

Product costs increased by $28 million, to $254 million for the three months ended December 31, 2019 from $226 million for the three months ended December 31, 2018. Product costs as a percentage of revenue increased to 20% for the three months ended December 31, 2019 from 19% for the three months ended December 31, 2018. Increases in product costs relate to revenue mix and impact of costs associated with tours in France.

Selling, general and administrative expenses

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

	For the Three Months Ended December 31,		2019 vs. 2018	
	2019	2018	$ Change	% Change
General and administrative expense (1)	$ 172	$ 180	$ (8)	-4 %
Selling and marketing expense	173	160	13	8 %
Distribution expense	34	36	(2)	-6 %
Total selling, general and administrative expense	$ 379	$ 376	$ 3	1 %

(1) Includes depreciation expense of $24 million and $14 million for the three months ended December 31, 2019 and December 31, 2018, respectively.

Total selling, general and administrative expense increased by $3 million, or 1%, to $379 million for the three months ended December 31, 2019 from $376 million for the three months ended December 31, 2018. Expressed as a percentage of revenue, selling, general and administrative expense decreased to 30% for the three months ended December 31, 2019 from 31% for the three months ended December 31, 2018.

General and administrative expense decreased by $8 million, or 4%, to $172 million for the three months ended December 31, 2019 from $180 million for the three months ended December 31, 2018. The decrease in general and administrative expense was mainly due to lower expense associated with our Senior Management Free Cash Flow Plan of $19 million, partially offset by a one-time charge within depreciation expense of $10 million and costs associated with transformation initiatives. Expressed as a percentage of revenue, general and administrative expense decreased to 14% for the three months ended December 31, 2019 from 15% for the three months ended December 31, 2018.

Selling and marketing expense increased by $13 million, or 8%, to $173 million for the three months ended December 31, 2019 from $160 million for the three months ended December 31, 2018. The increase in selling and marketing expense was primarily due to increased variable marketing expense on higher revenue in the quarter and increased spending on developing artists. Expressed as a percentage of revenue, selling and marketing expense increased to 14% for the three months ended December 31, 2019 from 13% for the three months ended December 31, 2018 due to the factors described above.

Distribution expense was $34 million for the three months ended December 31, 2019 and $36 million for the three months ended December 31, 2018. Expressed as a percentage of revenue, distribution expense remained flat at 3% for both the three months ended December 31, 2019 and December 31, 2018.

COEX-
9.20

Reconciliation of Net Income Attributable to Warner Music Group Corp. and Operating Income to Consolidated OIBDA

As previously described, we use OIBDA as our primary measure of financial performance. The following table reconciles operating income to OIBDA, and further provides the components from net income attributable to Warner Music Group Corp. to operating income for purposes of the discussion that follows (in millions):

	For the Three Months Ended December 31,		*2019 vs. 2018*	
	2019	**2018**	**$ Change**	**% Change**
Net income attributable to Warner Music Group Corp.	$ 120	$ 86	$ 34	40 %
Income attributable to noncontrolling interest	2	—	2	— %
Net income	122	86	36	42 %
Income tax expense	5	50	(45)	-90 %
Income before income taxes	127	136	(9)	-7 %
Other expense (income)	5	(28)	33	— %
Interest expense, net	33	36	(3)	-8 %
Loss on extinguishment of debt	—	3	(3)	-100 %
Operating income	165	147	18	12 %
Amortization expense	47	54	(7)	-13 %
Depreciation expense	24	14	10	71 %
OIBDA	$ 236	$ 215	$ 21	10 %

OIBDA

OIBDA increased by $21 million, or 10%, to $236 million for the three months ended December 31, 2019 as compared to $215 million for the three months ended December 31, 2018 as a result of higher revenues and lower general and administrative expenses. Expressed as a percentage of total revenue, OIBDA increased to 19% for the three months ended December 31, 2019 from 18% for the three months ended December 31, 2018 due to the factors previously discussed.

Amortization expense

Our amortization expense decreased by $7 million, or 13%, to $47 million for the three months ended December 31, 2019 from $54 million for the three months ended December 31, 2018. The decrease is primarily due to intangible assets becoming fully amortized.

Operating income

Our operating income increased by $18 million to $165 million for the three months ended December 31, 2019 from $147 million for the three months ended December 31, 2018. The increase in operating income was due to the factors that led to the increase in OIBDA.

Loss on extinguishment of debt

There was no loss on extinguishment of debt for the three months ended December 31, 2019. We recorded a loss on extinguishment of debt in the amount of $3 million for the three months ended December 31, 2018 which represents the unamortized deferred financing costs related to the partial redemption of the 4.125% Senior Secured Notes and 5.625% Senior Secured Notes, and the open market purchases of the 4.875% Senior Secured Notes.

Interest expense, net

Our interest expense, net, decreased to $33 million for the three months ended December 31, 2019 from $36 million for the three months ended December 31, 2018 due to a decline in LIBOR rates as well as lower interest rates resulting from the redemption of the 5.625% Senior Secured Notes and issuance of the 3.625% Senior Secured Notes.

Other expense (income), net

Other expense (income), net, for the three months ended December 31, 2019 primarily includes the loss on our Euro denominated debt of $12 million and $4 million unrealized losses on hedging activity, partially offset by currency exchange gains on our intercompany loans of $11 million. This compares to an unrealized gain of $15 million on the mark-to-market of an equity method

investment and $5 million unrealized gains on hedging activity, foreign currency gains on our Euro denominated debt of $10 million, partially offset by the currency exchange losses on our intercompany loans of $5 million for the three months ended December 31, 2018.

Income tax expense

Our income tax expense decreased by $45 million to $5 million for the three months ended December 31, 2019 from $50 million for the three months ended December 31, 2018. The change of $45 million in income tax expense primarily relates to the release of $33 million of our U.S. deferred tax valuation allowance during the three months ended December 31, 2019 and impact of GILTI during the three months ended December 31, 2018.

Net income

Net income increased by $36 million to $122 million for the three months ended December 31, 2019 from net income of $86 million for the three months ended December 31, 2018 as a result of the factors described above.

Noncontrolling interest

There was $2 million of income attributable to noncontrolling interest for the three months ended December 31, 2019 and no income attributable to noncontrolling interest for the three months ended December 31, 2018.

Business Segment Results

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

	For the Three Months Ended December 31,		*2019 vs. 2018*	
	2019	**2018**	**$ Change**	**% Change**
Recorded Music				
Revenues	$ 1,084	$ 1,041	$ 43	4 %
Operating income	191	163	28	17 %
OIBDA	241	211	30	14 %
Music Publishing				
Revenues	173	165	8	5 %
Operating income	14	22	(8)	-36 %
OIBDA	33	39	(6)	-15 %
Corporate expenses and eliminations				
Revenue eliminations	(1)	(3)	2	-67 %
Operating loss	(40)	(38)	(2)	5 %
OIBDA loss	(38)	(35)	(3)	9 %
Total				
Revenues	1,256	1,203	53	4 %
Operating income	165	147	18	12 %
OIBDA	236	215	21	10 %

Recorded Music

Revenues

Recorded Music revenue increased by $43 million, or 4%, to $1,084 million for the three months ended December 31, 2019 from $1,041 million for the three months ended December 31, 2018. U.S. Recorded Music revenues were $453 million and $431 million, or 42% and 41%, of consolidated Recorded Music revenues for the three months ended December 31, 2019 and December 31, 2018, respectively. International Recorded Music revenues were $631 million and $610 million, or 58% and 59%, of consolidated Recorded Music revenues for both the three months ended December 31, 2019 and December 31, 2018, respectively.

The overall increase in Recorded Music revenue was mainly driven by streaming revenue growth 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 Three Months Ended December 31,		*2019 vs. 2018*	
	2019	**2018**	**$ Change**	**% Change**
Artist and repertoire costs	$ 294	$ 295	$ (1)	— %
Product costs	254	226	28	12 %
Total cost of revenues	$ 548	$ 521	$ 27	5 %

Recorded Music cost of revenues increased by $27 million, or 5%, to $548 million for the three months ended December 31, 2019 from $521 million for the three months ended December 31, 2018. Expressed as a percentage of Recorded Music revenue, Recorded Music artist and repertoire costs decreased to 27% for the three months ended December 31, 2019 from 28% for the three months ended December 31, 2018. The decrease is primarily attributable to revenue mix. Expressed as a percentage of Recorded Music revenue, Recorded Music product costs increased to 23% for the three months ended December 31, 2019 from 22% for the three months ended December 31, 2018. The increase in product costs relates to revenue mix and impact of costs associated with tours in France.

Selling, general and administrative expense

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

	For the Three Months Ended December 31,		*2019 vs. 2018*	
	2019	**2018**	**$ Change**	**% Change**
General and administrative expense (1)	$ 113	$ 126	$ (13)	-10 %
Selling and marketing expense	169	157	12	8 %
Distribution expense	34	36	(2)	-6 %
Total selling, general and administrative expense	$ 316	$ 319	$ (3)	-1 %

(1) Includes depreciation expense of $21 million and $10 million for the three months ended December 31, 2019 and for the three months ended December 31, 2018, respectively.

Recorded Music selling, general and administrative expense decreased by $3 million, or 1%, to $316 million for the three months ended December 31, 2019 from $319 million for the three months ended December 31, 2018. The decrease in general and administrative expense was primarily due to lower expense associated with our Senior Management Free Cash Flow Plan of $11 million and timing of variable compensation expense, partially offset by a one-time charge within depreciation expense of $10 million and higher employee related costs. The increase in selling and marketing expense was primarily due to increased variable marketing expense on higher revenue in the quarter and increased spending on developing artists. The decrease in distribution expense was primarily due to revenue mix. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense decreased to 29% for the three months ended December 31, 2019 from 31% for the three months ended December 31, 2018 due to the factors described above.

Operating income and OIBDA

Recorded Music OIBDA included the following amounts (in millions):

	For the Three Months Ended December 31,		*2019 vs. 2018*	
	2019	**2018**	**$ Change**	**% Change**
Operating income	$ 191	$ 163	$ 28	17 %
Depreciation and amortization	50	48	2	4 %
OIBDA	$ 241	$ 211	$ 30	14 %

Recorded Music OIBDA increased by $30 million, or 14%, to $241 million for the three months ended December 31, 2019 from $211 million for the three months ended December 31, 2018 as a result of higher revenues and lower general and administrative expenses. Expressed as a percentage of Recorded Music revenue, Recorded Music OIBDA increased to 22% for the three months ended December 31, 2019 from 20% for the three months ended December 31, 2018 due to the factors previously discussed.

COEX-
9.20

Recorded Music operating income increased by $28 million to $191 million for the three months ended December 31, 2019 from $163 million for the three months ended December 31, 2018 due to the factors that led to the increase in Recorded Music OIBDA noted above.

Music Publishing

Revenues

Music Publishing revenues increased by $8 million, or 5%, to $173 million for the three months ended December 31, 2019 from $165 million for the three months ended December 31, 2018. U.S. Music Publishing revenues were $81 million and $73 million, or 47% and 44%, of consolidated Music Publishing revenues for the three months ended December 31, 2019 and December 31, 2018, respectively. International Music Publishing revenues remained flat at $92 million, or 53% and 56%, of consolidated Music Publishing revenues for the three months ended December 31, 2019 and December 31, 2018, respectively.

The overall increase in Music Publishing revenue was mainly driven by streaming revenue growth and higher synchronization as described in the "Total Revenues" and "Revenue by Geographical Location" sections above.

Cost of revenues

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

	For the Three Months Ended December 31,		*2019 vs. 2018*	
	2019	**2018**	**$ Change**	**% Change**
Artist and repertoire costs	$ 118	$ 108	$ 10	9 %
Total cost of revenues	$ 118	$ 108	$ 10	9 %

Music Publishing cost of revenues increased by $10 million, or 9%, to $118 million for the three months ended December 31, 2019 from $108 million for the three months ended December 31, 2018. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues increased to 68% for the three months ended December 31, 2019 from 65% for the three months ended December 31, 2018, primarily due to revenue mix and timing of artist and repertoire investments.

Selling, general and administrative expense

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

	For the Three Months Ended December 31,		*2019 vs. 2018*	
	2019	**2018**	**$ Change**	**% Change**
General and administrative expense (1)	$ 22	$ 18	$ 4	22 %
Selling and marketing expense	1	1	—	— %
Total selling, general and administrative expense	$ 23	$ 19	$ 4	21 %

(1) Includes depreciation expense of $1 million for both the three months ended December 31, 2019 and December 31, 2018.

Music Publishing selling, general and administrative expense increased to $23 million for the three months ended December 31, 2019 from $19 million for the three months ended December 31, 2018 due to higher employee related and restructuring costs. Expressed as a percentage of Music Publishing revenue, Music Publishing selling, general and administrative expense increased to 13% for the three months ended December 31, 2019 from 12% for the three months ended December 31, 2018 due to factors described above.

Operating income and OIBDA

Music Publishing OIBDA included the following amounts (in millions):

	For the Three Months Ended December 31,		*2019 vs. 2018*	
	2019	**2018**	**$ Change**	**% Change**
Operating income	$ 14	$ 22	$ (8)	-36 %
Depreciation and amortization	19	17	2	12 %
OIBDA	$ 33	$ 39	$ (6)	-15 %

Music Publishing OIBDA decreased by $6 million, or 15%, to $33 million for the three months ended December 31, 2019 from $39 million for the three months ended December 31, 2018. Expressed as a percentage of Music Publishing revenue, Music Publishing OIBDA decreased to 19% for the three months ended December 31, 2019 from 24% for the three months ended December 31, 2018. The decrease was primarily due to higher artist and repertoire and general and administrative expenses.

Music Publishing operating income decreased by $8 million to $14 million for the three months ended December 31, 2019 from $22 million operating income for the three months ended December 31, 2018 largely due to the factors that led to the decrease in Music Publishing OIBDA noted above.

Corporate Expenses and Eliminations

Our operating loss from corporate expenses and eliminations increased by $2 million for the three months ended December 31, 2019 to $40 million from $38 million for the three months ended December 31, 2018, which includes higher corporate related costs and transformation initiatives, partially offset by a decrease of $8 million in variable compensation associated with the Senior Management Free Cash Flow Plan.

Our OIBDA loss from corporate expenses and eliminations increased by $3 million for the three months ended December 31, 2019 to $38 million from $35 million for the three months ended December 31, 2018.

COEX-
9.20

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition at December 31, 2019

At December 31, 2019, we had $2.988 billion of debt (which is net of $27 million of deferred financing costs), $462 million of cash and equivalents (net debt of $2.526 billion, defined as total debt, less cash and equivalents and deferred financing costs) and $190 million of Warner Music Group Corp. deficit. This compares to $2.974 billion of debt (which is net of $29 million of deferred financing costs), $619 million of cash and equivalents (net debt of $2.355 billion) and $289 million of Warner Music Group Corp. deficit at September 30, 2019.

Cash Flows

The following table summarizes our historical cash flows (in millions). The financial data for the three months ended December 31, 2019 and December 31, 2018 are unaudited and have been derived from our interim financial statements included elsewhere herein.

	For the Three Months Ended December 31,	
	2019	2018
Cash provided by (used in):		
Operating activities	$ 78	$ 92
Investing activities	(32)	(238)
Financing activities	(207)	182

Operating Activities

Cash provided by operating activities was $78 million for the three months ended December 31, 2019 as compared with cash provided by operating activities of $92 million for the three months ended December 31, 2018. The $14 million decrease in cash provided by operating activities was primarily due to timing of working capital and higher cash taxes, partially offset by an OIBDA increase of $21 million.

Investing Activities

Cash used in investing activities was $32 million for the three months ended December 31, 2019 as compared with cash used in investing activities of $238 million for the three months ended December 31, 2018. The $32 million of cash used in investing activities in the three months ended December 31, 2019 consisted of $6 million relating to investments, $15 million relating to capital expenditures and $11 million to acquire music publishing rights. The $238 million of cash used in investing activities in the three months ended December 31, 2018 consisted of $183 million relating to the acquisition of EMP, net of cash and cash equivalents acquired, $23 million relating to the acquisition of equity investments, $26 million relating to capital expenditure and $5 million to acquire music publishing rights.

Financing Activities

Cash used in financing activities was $207 million for the three months ended December 31, 2019 as compared with cash provided by financing activities of $182 million for the three months ended December 31, 2018. The $207 million of cash used in financing activities for the three months ended December 31, 2019 consisted of dividends paid of $206 million and distributions to noncontrolling interest holders of $1 million. The $182 million of cash provided by financing activities for the three months ended December 31, 2018 consisted of proceeds of $287 million from the issuance of Acquisition Corp.'s 3.625% Senior Secured Notes due 2026 partially offset by deferred financing costs paid of $4 million, the partial repayment of Acquisition Corp.'s 4.125% Senior Secured Notes due 2024, 4.875% Senior Secured Notes due 2024 and 5.625% Senior Secured Notes due 2022, including call premiums paid, for an aggregate $99 million and distributions to noncontrolling interest holders of $2 million.

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 or retirement 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. Certain of our executive officers participate in a long-term equity incentive plan, which permits those executive officers to defer all or a portion of their free cash flow bonuses and receive grants of indirect equity interests in the Company. Payments under the plan, which could be material, are influenced by the

Company's valuation and other market factors, including valuations of similar companies. We believe that our existing sources of cash will be sufficient to support our existing operations over the next twelve months.

In August 2019, we announced that we were beginning a financial transformation initiative to upgrade our information technology and finance infrastructure over the next two years, including related systems and processes, for which we expect our capital expenditures to be between $30 million and $40 million, approximately two-thirds of which is expected to be incurred in the 2020 fiscal year and the remainder of which is expected to be incurred in the 2021 fiscal year. We expect that our cash flows from operations will be sufficient to fund our capital expenditures.

Existing Debt as of December 31, 2019

As of December 31, 2019, our long-term debt, all of which was issued by Acquisition Corp., was as follows (in millions):

Revolving Credit Facility (a)	$	—
Senior Term Loan Facility due 2023 (b)		1,314
5.000% Senior Secured Notes due 2023 (c)		298
4.125% Senior Secured Notes due 2024 (d)		342
4.875% Senior Secured Notes due 2024 (e)		218
3.625% Senior Secured Notes due 2026 (f)		495
5.500% Senior Notes due 2026 (g)		321
Total long-term debt, including the current portion (h)	$	2,988

(a) Reflects $180 million of commitments under the Revolving Credit Facility available at December 31, 2019, less letters of credit outstanding of approximately $13 million at December 31, 2019. There were no loans outstanding under the Revolving Credit Facility at December 31, 2019.
(b) Principal amount of $1.326 billion less unamortized discount of $3 million and unamortized deferred financing costs of $9 million at December 31, 2019.
(c) Principal amount of $300 million less unamortized deferred financing costs of $2 million at December 31, 2019.
(d) Face amount of €311 million. Above amount represents the dollar equivalent of such note at December 31, 2019. Principal amount of $345 million less unamortized deferred financing costs of $3 million at December 31, 2019.
(e) Principal amount of $220 million less unamortized deferred financing costs of $2 million at December 31, 2019.
(f) Face amount of €445 million at December 31, 2019. Above amount represents the dollar equivalent of such note at December 31, 2019. Principal amount of $494 million, an additional issuance premium of $8 million, less unamortized deferred financing costs of $7 million at December 31, 2019.
(g) Principal amount of $325 million less unamortized deferred financing costs of $4 million at December 31, 2019.
(h) Principal amount of debt of $3.010 billion, an additional issuance premium of $8 million, less unamortized discount of $3 million and unamortized deferred financing costs of $27 million at December 31, 2019.

For further discussion of our debt agreements, see "Liquidity" in the "Financial Condition and Liquidity" section of our Annual Report on Form 10-K for the fiscal year ended September 30, 2019.

Dividends

The Company's ability to pay dividends is restricted by covenants in the indentures governing its notes and in the credit agreements for the Senior Term Loan Facility and the Revolving Credit Facility.

On December 16, 2019, the Company's board of directors declared a cash dividend of $37.5 million which was paid to stockholders on January 17, 2020 and recorded as an accrual as of December 31, 2019. On December 20, 2018, the Company's board of directors declared a cash dividend of $31.25 million which was accrued as of December 31, 2018 and paid to stockholders on January 4, 2019.

In the first quarter of fiscal year 2019, the Company instituted a regular quarterly dividend policy whereby it intends to pay a modest regular quarterly dividend in each fiscal quarter and a variable dividend for the fourth fiscal quarter in an amount commensurate with cash expected to be generated from operations in such fiscal year, in each case, after taking into account other potential uses for cash, including acquisitions, investment in our business and repayment of indebtedness. The declaration of each dividend will continue to be at the discretion of the Company's board.

Covenant Compliance

The Company was in compliance with its covenants under its outstanding notes, the Revolving Credit Facility and the Senior Term Loan Facility as of December 31, 2019.

On January 18, 2019, we delivered a notice to the administrative agent under each of the Revolving Credit Facility and the Senior Term Loan Facility and the trustee under the indentures governing each of the Senior Notes and the Secured Notes changing the Fixed GAAP Date, as defined under each such facility and the indentures, to October 1, 2018.

The 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. Our ability to borrow funds under the Revolving Credit Facility may depend upon our ability to meet the leverage ratio test at the end of a fiscal quarter to the extent we have drawn a certain amount of revolving loans. 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); (6) transaction expenses; and (7) equity-based compensation expense. It also includes an adjustment for the pro forma impact of certain projected cost savings and synergies. The indentures governing our notes and the Senior Term Loan Facility use financial measures called "Consolidated EBITDA" or "EBITDA" that have the same definition as Consolidated EBITDA as defined under the Revolving Credit Agreement.

Consolidated EBITDA is presented herein because it is a material component of the leverage ratio contained in the Revolving Credit Agreement. Non-compliance with the leverage ratio could result in the inability to use the 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.

COEX-9.20

The following is a reconciliation of net income, which is a U.S. GAAP measure of our operating results, to Consolidated EBITDA as defined, and the calculation of the Senior Secured Indebtedness to Consolidated EBITDA ratio, which we refer to as the Leverage Ratio, under the Revolving Credit Agreement for the most recently ended four fiscal quarters, or the twelve months ended December 31, 2019. The terms and related calculations are defined in the Revolving Credit Agreement. All amounts in the reconciliation below reflect Acquisition Corp. (in millions, except ratios):

	Twelve Months Ended December 31, 2019
Net Income	$ 294
Income tax benefit	(36)
Interest expense, net	140
Depreciation and amortization	271
Loss on extinguishment of debt (a)	4
Net gain on divestitures and sale of securities (b)	(4)
Restructuring costs (c)	26
Net hedging gains and foreign exchange losses (d)	(23)
Management fees (e)	11
Business optimization expenses (f)	28
Equity based compensation expense (g)	30
Other non-cash charges (h)	(3)
Pro forma impact of cost savings initiatives (i)	2
Pro Forma Consolidated EBITDA	**$ 740**
Senior Secured Indebtedness (j)	**$ 2,485**
Leverage Ratio (k)	**3.36x**

(a) Reflects net loss incurred on the early extinguishment of our debt incurred as part of the May 2019 redemption of the remaining 5.625% Secured Notes.
(b) Reflects net gain on divestitures and sale of securities.
(c) Reflects severance costs and other restructuring related expenses.
(d) Reflects net gains from hedging activities and unrealized losses due to foreign exchange on our Euro-denominated debt and intercompany transactions.
(e) Reflects management fees paid to Access, including an annual fee and related expenses. 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.
(f) Reflects primarily costs associated with IT systems updates and other transformation initiatives.
(g) Reflects equity-based compensation expense related to the Warner Music Group Corp. Senior Management Free Cash Flow Plan.
(h) Reflects non-cash activity, including the unrealized gains on the mark-to-market of an equity method investment.
(i) Reflects expected savings resulting from transformation initiatives and restructuring programs.
(j) Reflects the principal balance of senior secured debt at Acquisition Corp. of approximately $2.685 billion less cash of $200 million.
(k) Reflects the ratio of Senior Secured Indebtedness, including Revolving Credit Agreement Indebtedness, to Pro Forma Consolidated EBITDA as of the twelve months ended December 31, 2019. This is calculated net of cash and equivalents of the Company as of December 31, 2019 not exceeding $200 million. If the outstanding aggregate principal amount of borrowings and drawings under letters of credit which have not been reimbursed under our Revolving Credit Facility is greater than $54 million at the end of a fiscal quarter, the maximum leverage ratio permitted under the Revolving Credit Facility is 4.75:1.00. The Company's Revolving Credit Facility does not impose any "leverage ratio" restrictions on the Company when the aggregate principal amount of borrowings and drawings under letters of credit, which have not been reimbursed under the Revolving Credit Facility, is less than or equal to $54 million at the end of a fiscal quarter.

COEX-
9.20

Summary

Management believes that funds generated from our operations and borrowings under the Revolving Credit Facility and available cash and equivalents 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 the 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 formats in the recorded music and music publishing industries. We and our affiliates continue to evaluate opportunities to, from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to pay dividends or prepay outstanding debt or repurchase or retire 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, from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, we may seek to refinance the Senior Credit Facilities or our outstanding debt or debt securities with existing cash and/or with funds provided from additional borrowings. Certain of our executive officers participate in a long-term equity incentive plan, which permits those executive officers to defer all or a portion of their free cash flow bonuses and receive grants of indirect equity interests in the Company. Payments under the plan, which could be material, are influenced by the Company's valuation and other market factors, including valuations of similar companies.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As discussed in Note 14 to our audited consolidated financial statements for the fiscal year ended September 30, 2019, 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 December 31, 2019, other than as described below, there have been no material changes to the Company's exposure to market risk since September 30, 2019.

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. companies for the sale or licensing of U.S.-based music and merchandise 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 Euro, British pound sterling, Japanese yen, Canadian dollar, Swedish krona, Australian dollar, Brazilian real, Korean won and Norwegian krone, and in many cases we have natural hedges where we have expenses associated with local operations that offset the revenue in local currency and our Euro-denominated debt, which can offset declines in the Euro. As of December 31, 2019, the Company had outstanding hedge contracts for the sale of $288 million and the purchase of $148 million of foreign currencies at fixed rates. Subsequent to December 31, 2019, certain of our foreign exchange contracts expired.

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 December 31, 2019, 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. The fair value of the foreign exchange forward contracts would have decreased by $14 million based on this analysis. 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 $3.010 billion of principal debt outstanding at December 31, 2019, of which $1.326 billion was variable-rate debt and $1.684 billion was fixed-rate debt. As such, we are exposed to changes in interest rates. At December 31, 2019, 56% of the Company's debt was at a fixed rate. In addition, as of December 31, 2019, we have the option under all of our floating rate debt under the Senior Term Loan Facility to select a one, two, three or six month LIBOR rate. To manage interest rate risk on $820 million of U.S. dollar-denominated variable-rate debt, the Company has entered into interest rate swaps to effectively convert the floating interest rates to a fixed interest rate on a portion of its variable-rate debt.

Based on the level of interest rates prevailing at December 31, 2019, the fair value of the Company's fixed-rate and variable-rate debt was approximately $3.096 billion. Further, as of December 31, 2019, based on the amount of the Company's fixed-rate debt, a 25 basis point increase or decrease in the level of interest rates would decrease the fair value of the fixed-rate debt by approximately $3 million or increase the fair value of the fixed-rate debt by approximately $5 million. This potential fluctuation 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.

Inflation Risk

Inflationary factors such as increases in overhead costs may adversely affect our results of operations. We do not believe that inflation has had a material effect on our business, financial condition or results of operations to date. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases for services. Our inability or failure to do so could harm our business, financial condition or results of operations.

ITEM 4. CONTROLS AND PROCEDURES

Certification

The certifications of the principal executive officer and the principal financial officer (or persons performing similar functions) required by Rules 13a-14(a) and 15d-14(a) of the Exchange Act (the "Certifications") are filed as exhibits to this report. This section of the report contains the information concerning the evaluation of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) ("Disclosure Controls") and changes to internal control over financial

reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) ("Internal Controls") referred to in the Certifications and this information should be read in conjunction with the Certifications for a more complete understanding of the topics presented.

Introduction

The Securities and Exchange Commission's ("SEC") rules define "disclosure controls and procedures" as controls and procedures that are designed to ensure that information required to be disclosed by public companies in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by public companies in the reports that they file or submit under the Exchange Act is accumulated and communicated to a company's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The SEC's rules define "internal control over financial reporting" as a process designed by, or under the supervision of, a public company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, or U.S. GAAP, including 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 the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company 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.

The Company's management, including its principal executive officer and principal financial officer, does not expect that our Disclosure Controls or Internal Controls will prevent or detect all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the limitations in any and all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Further, the design of any control system is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected even when effective Disclosure Controls and Internal Controls are in place.

Evaluation of Disclosure Controls and Procedures

Based on management's evaluation (with the participation of the Company's principal executive officer and principal financial officer), as of the end of the period covered by this report, the Company's principal executive officer and principal financial officer have concluded that the Company's Disclosure Controls are effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act will be recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, including that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting or other factors during the quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time-to-time the Company is involved in claims and legal proceedings that arise in the ordinary course of business. The Company is currently subject to several such claims and legal proceedings. Based on currently available information, the Company does not believe that resolution of pending matters will have a material adverse effect on its financial condition, cash flows or results of operations. However, litigation is subject to inherent uncertainties, and there can be no assurances that the Company's defenses will be successful or that any such lawsuit or claim would not have a material adverse impact on the Company's business, financial condition, cash flows and results of operations in a particular period. Any claims or proceedings against the Company, whether meritorious or not, can have an adverse impact because of defense costs, diversion of management and operational resources, negative publicity and other factors.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Quarterly Report on Form 10-Q, certain risk factors should be considered carefully in evaluating our business. A wide range of risks may affect our business and financial results, now and in the future. We consider the risks described in Part I, Item 1A "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended September 30, 2019, to be the most significant. There may be other currently unknown or unpredictable economic, business, competitive, regulatory or other factors that could have material adverse effects on our future results.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

COEX-
9.20

ITEM 6. EXHIBITS

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

Exhibit Number	Description
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
32.1**	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1*	Financial statements from the Quarterly Report on Form 10-Q of Warner Music Group Corp. for the quarter ended December 31, 2019, filed on January 31, 2020, formatted in XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of Equity and (vi) Notes to Consolidated Interim Financial Statements

* Filed herewith

** Pursuant to SEC Release No. 33-8212, this certification will be treated as "accompanying" this Quarterly Report on Form 10-Q and not "filed" as part of such report for purposes of Section 18 of the Securities Exchange Act, as amended, or otherwise subject to the liability of Section 18 of the Securities Exchange Act, as amended, and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, except to the extent that the registrant specifically incorporates it by reference

COEX-
9.20

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

January 31, 2020

WARNER MUSIC GROUP CORP.

By: /s/ STEPHEN COOPER

Name: Stephen Cooper
Title: Chief Executive Officer (Principal Executive Officer)

By: /s/ ERIC LEVIN

Name: Eric Levin
Title: Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

COEX-
9.20

Exhibit 31.1

CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Stephen Cooper, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended December 31, 2019 of Warner Music Group Corp. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: January 31, 2020

/S/ STEPHEN COOPER

Chief Executive Officer
(Principal Executive Officer)

COEX-
9.20

Exhibit 31.2

CHIEF FINANCIAL OFFICER CERTIFICATION

I, Eric Levin, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended December 31, 2019 of Warner Music Group Corp. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: January 31, 2020

/S/ ERIC LEVIN

Chief Financial Officer
(Principal Financial and Accounting Officer)

COEX-
9.20

Exhibit 32.1

Certification of the Chief Executive Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Warner Music Group Corp. (the "Company") on Form 10-Q for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen Cooper, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 31, 2020

/S/ STEPHEN COOPER

Stephen Cooper
Chief Executive Officer

COEX-
9.20

Exhibit 32.2

Certification of the Chief Financial Officer
Pursuant to 18 U.S.C. Section 1350,
As Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Quarterly Report of Warner Music Group Corp. (the "Company") on Form 10-Q for the period ended December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric Levin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: January 31, 2020

/S/ ERIC LEVIN

Eric Levin
Chief Financial Officer

COEX-9.21
RESTRICTED
FILED UNDER SEAL

PUBLIC VERSION

Before the
COPYRIGHT ROYALTY BOARD
LIBRARY OF CONGRESS
Washington, D.C.

In the Matter of: DETERMINATION OF RATES AND TERMS FOR MAKING AND DISTRIBUTING PHONORECORDS (PHONORECORDS III)	Docket No. 16–CRB–0003–PR (2018–2022)

WITNESS STATEMENT OF STEVE BOGARD

1. My name is Steve Bogard and I live in Nashville, Tennessee. I am a non-performing songwriter, or "pure songwriter," signed to an exclusive contract with Magic Mustang Music, a division of Broken Bow Records. I am also the longest-serving (seven years) former President of the Nashville Songwriters Association International ("NSAI"), the world's largest not-for-profit songwriter trade association. I respectfully make this statement in support of the proposal of the National Music Publishers' Association ("NMPA") and NSAI (collectively, the "Copyright Owners") for the statutory rate for mechanical licenses for interactive streaming. Under the current mechanical rate structure for interactive streaming, the songwriters who create our music are struggling more than ever to earn a decent living.

2. The purpose of the Copyright Act is to incentivize creators to create works of value by giving them exclusive control over their creations for a limited period of time. However, the federal government regulates two of the three major income streams available to songwriters: mechanical (compulsory license) and public performance income (outdated consent decrees). The playing field is stacked against songwriters and music publishers in a way that is almost impossible to conceive of in any other line of work. Imagine a profession in which you have no

ability to negotiate the value of your own work, and no ability to refuse to license the fruits of your work to anyone who wants it, even though you know they are only paying a fraction of what it's worth. Incredibly, that is precisely the position that American songwriters are in when it comes to streaming and limited downloads. Therefore, if I wanted to tell Spotify that it cannot have any Steve Bogard songs because what they pay is insulting, I can't do it, even if I control 100% of the songs. Thus, songwriters cannot protect the value of their music and must sit and watch while their music continues to be devalued, particularly by the interactive streaming services.

3. Since mechanical rights are compulsory, the only way songwriters can be fairly compensated is for regulators to set rates that compensate them fairly regardless of how their songs are distributed to the public. As I explain below, songwriters are not being fairly compensated under the current compulsory mechanical rates for interactive streaming and limited downloads. I'm a career songwriter who has seen my mechanical royalties drop like a nickel rolling off a table. I know my songs are still being played on terrestrial radio because my performance royalties continue to be significant, even on older copyrights. And I'm one of the lucky ones who are still out there generating activity and getting cuts. Many of my contemporaries, some of them Hall of Famers, have had to give up full-time songwriting because they cannot earn enough money to support their families.

4. The demand for music has never been higher. The streaming platforms are showing unprecedented growth, and are rapidly replacing sales of physical product and permanent downloads. And, while I am not an economist, common sense tells me that when more people want to listen to more music, the value of music increases. Songwriters should not be penalized financially if music fans wish to stream their music instead of purchasing albums or

permanent downloads. But under the existing rate structure for interactive streaming and limited downloads, songwriters are only minimally compensated when their songs are streamed or played as limited downloads compared to when their songs are purchased on albums or permanently downloaded; it's the difference between micro-pennies per stream and 9.1 cents per album track or permanent download. There is no logical reason for the disparate mechanical rates. Music fans do not enjoy our music less when they stream it than when they listen to it on an album or CD, or a permanent download. Music fans who enjoy our songs by streaming them anytime, anywhere, as many times as they want, on multiple devices, no less "own" our songs than music fans who buy albums or downloads.

5. Soon, interactive streaming will be the primary source of mechanical income. If the statutory mechanical rate structure for interactive streaming is not substantially increased to provide songwriters fair compensation for their contributions, successful professional songwriters who can no longer support themselves and their families will continue leaving the business at a faster rate. Talented young songwriters will not choose the songwriting profession if they can't earn enough to support themselves and their families. They will choose another career path where they can make a decent living. Without songwriters, there will be no songs that mark the memories and the moments of our lives. And the world will be so much the worse for it.

My Background

6. In determining statutory rates for interactive streaming, I think it is important for the Judges to understand the personal investments and sacrifices songwriters make; the risks they take when they choose to pursue songwriting as a career; the way the music industry has changed over the last decade; and how these changes have impacted songwriters.

7. I have been a professional songwriter for 47 years and have achieved a level of success that I am both proud of and grateful for. Over 125 of my songs have been recorded by some of the best-known, top-selling recording artists in country and pop music. They include Waylon Jennings, Conway Twitty, George Strait, Dierks Bentley, Tanya Tucker, Etta James, The Four Tops, Tim McGraw, Reba McEntire, Kenny Chesney, Trace Adkins, Brad Paisley, Restless Heart, Oak Ridge Boys, Rascal Flatts, and Dustin Lynch, among many others.

8. Nine of my songs reached Number 1 on the Country charts: (1) Dierks Bentley, "Every Mile A Memory"; (2) Jack Ingram, "Wherever You Are"; (3) George Strait, "Carrying Your Love With Me"; (4) George Strait, "Carried Away"; (5) Reba McEntire, "New Fool At An Old Game"; (6) Eddie Raven, "Til You Cry"; (7) Tanya Tucker, "Hangin' In"; (8) Lee Greenwood, "Mornin' Ride"; and (9) Rascal Flatts, "Prayin' For Daylight."

9. Eight other songs I have written hit the top ten on the Country charts, three hit the top twenty, and another thirteen of my songs hit the top one hundred. I currently have a cut, "Seein' Red," on Dustin Lynch's upcoming third studio album. His prior three albums (two of which were studio albums that contained several of my songs) reached Number 1 on the Country charts. "Seein' Red," was released as the lead single this past June. The single is currently at Number 29 on Country Air Check and climbing.

10. My songs have been sold on over one hundred million albums, according to RIAA gold and platinum certifications. Two of my songs were nominated for Grammy Awards for Best Country Song. And I have multiple one, two, and three million radio performance awards from BMI.

11. I have been advocating on behalf of songwriters for well over a decade. In 2006, I was elected to the first of seven terms as the President of the Board of NSAI, the longest

consecutive service in that role in the organization's more than 40-year history. For several years before that, I served as a member of the Board. Under my watch, we bought our own building, Nashville's historic Music Mill, and acquired the nation's premier acoustic venue, the legendary Bluebird Café. As President, I worked closely with our Executive Director on the policies and direction of the organization. During my tenure, we helped change the U.S Tax Code for songwriters with the Songwriters Tax Equity Act. Through countless visits to Congress, during which I spent many hours with members of the House and Senate Judiciary Committees, I advocated for the ill-fated Stop Online Piracy Act. I advocated for songwriters in the Phonorecords I rate proceeding in 2006. I remain a dedicated advocate for songwriters.

The Work of a Professional Songwriter

12. The pursuit of a career as a professional songwriter involves sacrifices and risk. As I stated above, I have been a songwriter for 47 years. Music has been a part of my life for as long as I can remember. In fact, I started my own band, The Paragons, when I was 13 years old. We played school dances, community centers, and country clubs, and we opened concerts for local and national acts throughout the Tampa Bay area. In 1968, we recorded a few of my original songs with a producer in Memphis that were picked up by Scepter Records. The label released two of the cuts as singles and we went on the road. Music was my passion, and though I loved performing, I soon realized my gift was writing songs.

13. After the band broke up in 1969, I moved to Memphis. Bill Black Music gave me the tremendous opportunity to write with and learn from professional songwriters, including legendary songwriters like Dan Penn, Chips Moman, and Wayne Carson. A song that I co-wrote, "Freedom Train," was recorded by R&B artist James Carr and became a top twenty hit on Billboard Rhythm & Blues Singles. "Freedom Train" became something of a Civil Rights

anthem for the time. I learned the lesson from these folks that generosity, paying it forward to young up-and-coming writers, is an important tenet of the songwriting community that I carry with me to this day.

14. A short while later, I landed a staff songwriting deal with Atlantic Records' publishing company at the famed Criteria Studios in Miami. At the age of 20, I was working with legendary producers Tom Down and Jerry Wexler, writing for their artists Delaney & Bonnie, Dee Dee Warwick, and Rita Coolidge, and sitting in on sessions with Aretha Franklin and Eric Clapton.

15. My family and I moved to Nashville in 1982 after a song I had written in Memphis in 1970, "Touch Me With Magic," was picked up and recorded by Marty Robbins. It became a top fifteen Billboard Country hit and won a BMI Performance Award. The move to Nashville was risky. I had my wife and two young children to support, a $5,000 loan, and no job. I played small gigs for very little pay until I found a publishing deal as a full-time songwriter for The Welk Music Group and was paid a draw of $50 per month.

16. My wife, Beverly, a stay-at-home mom who had never worked outside the home, supported our family with a job waiting tables at Red Lobster. We faced the challenges of juggling work and child care, just as any two working parents would. Though my draw was nominal, I was soon writing with mentors like Rory Bourke and Charlie Black, now Hall of Fame songwriters.

17. In 1984, I signed an exclusive songwriter agreement with Chappell & Co., which later merged with Warner Bros. and became Warner/Chappell Music. The day I signed this contract, I had $12 in the bank, rent due, and a $200 tuition bill to pay for my two young children's Catholic school. That first $300-a-week draw seemed like a small fortune. Soon I had

my first Number 1 Country song. I spent over twenty years writing for Warner/Chappell during which time I wrote many platinum-selling and chart-topping songs.

18. In 2005, I signed a multi-year co-publishing agreement with Famous Music where I had two Grammy nominated songs, including a multi-week Number 1 hit for Dierks Bentley. In 2008, Sony/ATV Music Publishing purchased Famous Music and, although I could have remained with Sony/ATV, I decided instead to start my own publishing/production/management company. Investing my own money during this difficult time in the music business with no corporate partner, and running the day-to-day business while writing full time, proved to be a big financial mistake for me.

19. I then spent two years looking for a new publishing home, and even with all my previous success, and many friends in the music community, there seemed to be no place for an experienced, non-performing songwriter. Then, in late 2011, I signed a co-publishing deal with Magic Mustang Music, a division of Broken Bow Records. Magic Mustang / Broken Bow saw the value of having a veteran songwriter to co-write with and mentor their growing stable of young artists and songwriters.

20. It took many years of hard work to become a successful songwriter. As I learned during my ill-fated independent venture, it is a full-time job, requiring long hours and writing seven days a week. Songwriters also must listen for trends in music and constantly search for "hooks," phrases, titles, and ideas. Our ultimate goal is to make people feel something, to touch their hearts. One thing is for certain, talent will only get you so far. A strong work ethic and persistence are necessary to master the craft. And no matter how talented you are or how hard you work, there are no guarantees of success. A song can be pitched dozens of times before it

finds a home on a recording and most never do. I recently had a song recorded by Ronnie Dunn (formerly of Brooks & Dunn) that he put on "hold" to record SEVENTEEN years ago.

Songs Are Inherently And Economically Valuable

21. I believe that a critical factor in considering compulsory mechanical rates and terms for interactive streaming include the economic, emotional, and cultural significance of songs and the songwriters who create them. Starting with the economics, songwriters are the backbone of the music industry and the many businesses and professions that rely on music. Without songwriters, there are no songs. Without songwriters, there are no record companies, recording artists, recording studios, session musicians, background singers, record producers, recording engineers, studio employees, recording technology manufacturers, concert tours, sound and light designers, or concert t-shirts and merchandise. Without songs, there would be no publishing companies or performing rights organizations. Terrestrial and satellite radio stations would be all talk. Without songs, there would be no soundtracks to major motion pictures. There would be no music on YouTube. Without songs, there would be no interactive streaming services. When songwriters create a great song, they create great economic value.

22. Beyond driving the music industry, the songs we write touch people in ways that are unquantifiable. "The song" that was playing is often the most vivid detail we remember about our childhoods, our families, our first dates, our first loves, our weddings, our heartaches, and our losses. There is compelling research on Alzheimer's patients that songs can sometimes be the only way to reach their lost memories. People have told me how my songs touched their lives and helped them get through difficult times.

23. For example, friends of my wife Beverly and me invited us to their daughter's wedding when my song, "Carrying Your Love With Me," was a hit for George Strait. Before the

wedding, the father of the bride told me that he could not wait for me to see the bride and groom's first dance. They danced to "Carrying Your Love With Me." The couple had gone through a difficult engagement. The groom was in the military, stationed nearby, but deployed to the Middle East twice. His service caused a serious strain on their relationship. The father of the bride told me that my song had been "their song," important to their staying together through the hardships. To add another layer of meaning to "their song," the bride was, in fact, several months pregnant and "carrying their love."

24. On another occasion, after I finished a performance at the Bluebird Café in Nashville, a young man approached me to shake my hand. He showed me his wrist, which had a unique design around the words, "Every Mile A Memory," a Number 1 hit I wrote with Dierks Bentley. This young man went on to tell me how he and his best friend had enlisted in the military together and decided to get these identical tattoos before they were deployed to Iraq, and how they vowed to stick together. Tragically, his friend did not return home. This young man wanted me to know how much my song meant to him and reminded him of his dear friend.

25. Close friend and NSAI board member, Philip White, co-wrote the Song of the Year in 2001, "I'm Movin' On," for Rascal Flatts. Over the last year, Philip has gone through a difficult divorce and filed for bankruptcy. Broke and alone, another friend recommended he see a therapist. At the end of Philip's first therapy session, his therapist handed him a folded sheet of paper and said, "I want you to go listen to this song." Philip unfolded the paper to see his song, "I'm Movin' On," written there. The therapist was shocked to learn that Philip had written that song and told him that, over the years, he had recommended the song to hundreds of patients, and that it had helped many of them move through crises in their lives.

26. Songwriting is an art that touches people's lives in so many ways. This is, in part, what makes songwriters and their songs so valuable. While there are other art forms that perform the same function—novels and films—songs are by far the most accessible form of art to all people. They impact our American culture and society in a way that no other form of art does. America's music has influenced music throughout the world.

27. The songwriter's integral economic and cultural role has not changed as the distribution of music has shifted from physical sales to digital sales to interactive streaming. Why, then, have we been struggling harder and harder to make a decent living as the popularity of interactive streaming has steadily grown to the point that it is cannibalizing physical sales and permanent downloads? There are several reasons.

Rates Are Depressed By Government Regulation

28. Since 1909, songwriters have been prohibited from negotiating mechanical rates in the free market. Rates set by the federal regulators are significantly lower than rates that would be negotiated in the free market. And the below market statutory rates for mechanical licenses have not evolved with changes in the music industry, including changes in the way music is distributed. As a result, our songs have been, and continue to be, devalued. In the one major income stream that songwriters and publishers negotiate in the free market, synchronization, the "song" copyright is typically paid the *same* rate as the sound recording copyright. This is a very telling model.

29. There is no other American business that is forced to license or sell its product to anyone who wants to use it at the price the government sets. In fact, songwriting is the most heavily regulated sector of the music industry and, while most of the heavily regulated industries in this country have been deregulated, the federal government continues to control an alarming

two-thirds of songwriters' income streams. Therefore, songwriters cannot protect the value of their music.

30. If there is any question that government regulation has depressed mechanical rates, consider that record labels and recording artists using my songs are paid significantly higher mechanical rates than I am paid by the interactive streaming services. Sound recordings are not inherently more valuable than the underlying song. Unlike the songwriters and their music publishers, the recording artists and their labels are permitted to negotiate their rates in the free market.

31. Recording artists, and songwriters who are recording artists, have additional sources of revenue that are not available to pure songwriters or their publishers, including advances from their record labels; royalties from record sales (physical sales, permanent downloads, and digital streaming); sound recording performance royalties; tour revenue; and revenue from the sale of merchandise at concerts. In current "360" record deals, the labels also participate in some or all of these income streams, dramatically reducing the risk that they will be unable to recoup their expenditures. Publishers, on the other hand, recoup their expenses from compulsory mechanical royalty rates, government-regulated performance royalties, and synchronization royalties, and have a higher risk that their songwriters will not earn enough for their publishers to recoup.

32. Even though I had received a full academic scholarship to attend the University of Chicago and several other full rides from state schools in Florida, my passion for music led me instead to pursue songwriting as a profession. When I chose a songwriting career, I relied on being able to make a living if I created songs that became hits. I have written many songs that have become hits and continue to do so. However, over the past few years, my income has not

reflected my continued success because the interactive streaming services are paying a fraction of what I earn from physical sales and permanent downloads.

Songwriters Must Be Compensated Fairly For The Value of Their Contribution

33. Streaming music anytime, any place, on any device is the way today's music fans want to enjoy their music. Notwithstanding that the inherent value of a song is the same whether the consumer chooses to buy an album, permanently download an album or a single, or stream music on demand, the mechanical royalties I receive from streaming are insulting. The streaming services continue to reap the benefits of our work at our expense—the devaluation of our songs. They are able to do this because of outdated laws, which have not evolved with the changing music industry. The streaming services are metaphorically eating the goose that lays the golden eggs.

34. We must bring the compensation for musical works in line with current market realities. Rather than seeing value from the historic level of demand for music, successful professional songwriters are abandoning their long careers in the industry to do what? I am not suggesting that we believe we should be guaranteed a certain lifestyle. Songwriters who don't write hits have never made a great living in this industry. A lower income when you don't write hits is to be expected. That is the risk we all take. When we write hits, however, we deserve to be fairly paid based on the value of our songs and value is best measured based by what would happen in a free market.

35. Songwriters have been subsidizing the services' business models built upon the devaluation of music. Traditionally, the services have fought against mechanical rate increases, claiming they are not profitable. Ten years ago, streaming services were new and their prospects were uncertain. Now if they are not profitable, it is because they have adopted business models

that prioritize market share over profitability. The paid-subscription services have been in a steady race to the bottom, suppressing subscription prices to compete for subscribers. In the process, the services have conditioned listeners to pay little or nothing for unlimited access to music.

36. The interactive streaming services now include some of the world's largest companies: Apple, Google, and Amazon, which use our music to sell more products, smartphones, and smart speakers. Spotify, valued at over $8 billion, has 100 million active users worldwide, between 60 to 70 million of which are ad-supported and free to the customer. Spotify is telling consumers that music should be free, further devaluing the Copyright Owners' songs.

The Plight of Songwriters Is Grave

37. I am fortunate to have a career as a songwriter that supports my family and myself while I do something I love. Our lifestyle has been comfortable, but never extravagant. We were able to buy a nice house in Nashville that we love. I was able to send one of my kids to college through her Master's degree and help the other with his career in the fly-fishing/recreation business. We were usually able to take one nice family vacation a year, often renting a funky beach house for a couple of weeks, with the kids and their friends along, bonding together and relaxing. We could eat out, enjoy entertainment, and live a "normal" middle class life.

38. I'm still writing hits. Music fans still listen to music I wrote years ago recorded by revered country artists. But since interactive streaming has become the primary way that people listen to music, my family's lifestyle is no longer safe or comfortable. I had to borrow money against my home in Nashville to cover our basic living expenses. The house we love has fallen into some disrepair. My wife and I have not been on vacation in five years, other than songwriter events where I'm working. Not only do I feel the stress of my career, but my family does as well.

39. I'm not looking for pity. I am asking that the compulsory mechanical rate be changed for the sake of all songwriters, especially the pure songwriters. Unless the compulsory mechanical rate structure is changed to take into account changes in technology, the pure, non-performing songwriting profession will no longer exist. Without pure songwriters, some of the greatest music of all time would not exist. Elvis Presley, Frank Sinatra, Aretha Franklin, Sam Cooke, Diana Ross, Marvin Gaye, Elton John, and Whitney Houston did not write the songs that made them beloved recording artists.

40. If the profession of non-performing songwriter ceases to exist because we can't make a living, there will be no next generation of George Straits or Harry Connick Jr.'s because there will be no one to write the timeless songs they perform. Even today's great young pop artists, many of whom are great songwriters like Taylor Swift, Bruno Mars, Pink, and Lady Gaga, often depend on "pro" songwriters to co-write their biggest hits.

41. The availability of publishing deals has significantly decreased. It is alarming that in Nashville there are so many fewer songwriters than there were just a few years ago. Most estimates say that there are less than one-quarter of the number of professional songwriters than there were just 10 years ago. Many songwriters in Nashville who earned a full-time living from royalty payments are no longer signed to publishing deals.

42. Publishers cannot afford to sign as many songwriters as they did in the past. Music publishers typically invested in younger writers who might not produce immediate results and then recouped their money when those writers started earning royalties on album cuts. Now, when they do sign writers, music publishers increasingly turn to recording artist and producer writers, so they can hedge their bets with a better chance of recordings being released.

43. I have always said that I would never trade one moment of my songwriting journey for a safer, more secure path. However, I don't know if I could say that in earnest anymore. I am working twice as hard for half the money. Many contemporaries faced with this challenge have been forced to quit the full-time songwriting profession because they are not able or willing to adapt to what a songwriter needs to do to make a living in today's market.

44. When I first arrived in Nashville, experienced and established songwriters would invite young, talented songwriters to write with them. This was a very illuminating experience for the young songwriters and helped them grow into better professionals. It also gave the established writer new ideas and influences. Today, a professional non-performing songwriter cannot simply try to write a great song alone or with co-writers who are also professional songwriters, then hope that an artist records it.

45. Now, an established songwriter cannot mentor young songwriters if he or she wants to maintain his living. Veteran songwriters, such as myself, simply do not have time. Instead, I spend three to four days a week with young recording artists who already have record deals and need help writing their songs. These recording artists are sometimes very talented songwriters, but it often takes the craft and art of the professional writer to turn their thoughts into commercial songs.

46. If statutory mechanical rates are not changed to fairly compensate songwriters, there is little doubt that I will have to find different work to support my family. There is no way I could come home from another job—exhausted and distracted—and write songs in the evening. Inspiration is difficult to come by after a long day of work at Home Depot. Songwriting is not a part-time job. It's all or nothing. Songwriting requires a clear mind and all my time and energy. With other jobs, songwriters will not have time to live the creative life required to write great

songs. We capture small personal moments and events and make them universal. We jot down phrases and hum melodies and make notes on iPhones constantly. You can't write deeply about life unless you *have* a life, with time to love and hate and reflect on yourself and the world around you.

47. The interactive streaming services are not only drumming me out of the professional songwriting business, they are jeopardizing the future of American music itself. Unless the services compensate creators fairly, I fear for that twenty-year-old songwriter looking forward to a career as a songwriter. First, he will find it very difficult to find a publisher to sign him. Publishers cannot afford to pay pure songwriters large enough advances to support themselves while they focus on learning the craft and writing good songs. There will be no professional songwriters to mentor him to hone the craft. And he won't have time to make the business and creative contacts that are the heart of this business. He'll be too busy delivering pizza.

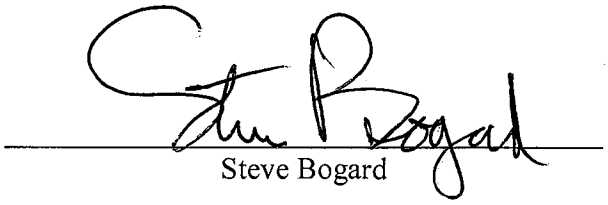
48. Unsustainable rates will also prevent the best singers (who may not write songs) from making recordings from the work of the best songwriters. The world will never have great American music from artists like Aretha Franklin, Ray Charles, Elvis, and Frank Sinatra again. If the mechanical rate structure does not change, it will be devastating to the American songbook.

49. I understand that there are those who doubt music will stop if songwriters are not paid fairly for their works. I can tell you that that is not the case. Few people can afford to be professional artists if they are not paid for their work. If I were not paid fair compensation for the songs that I have written, I would not be a professional songwriter. I would not have devoted a lifetime to full-time songwriting over the course of a long career. It is possible I would have occasionally written some music for fun, but I would not have had the creative fulfillment of

writing full time. I would have had to make my living doing something else. I humbly believe that would have meant a very different musical world. I sincerely believe we would all be poorer for it.

I declare under penalty of perjury that the foregoing testimony is true and correct to the best of my knowledge, information and belief.

Dated: October 28, 2016



Steve Bogard

Proof of Delivery

I hereby certify that on Wednesday, October 20, 2021, I provided a true and correct copy of the Volume VI.H - Copyright Owners' Exhibits to the following:

Pandora Media, LLC, represented by Benjamin E. Marks, served via ESERVICE at benjamin.marks@weil.com

Zisk, Brian, represented by Brian Zisk, served via ESERVICE at brianzisk@gmail.com

Apple Inc., represented by Mary C Mazzello, served via ESERVICE at mary.mazzello@kirkland.com

Powell, David, represented by David Powell, served via ESERVICE at davidpowell008@yahoo.com

Amazon.com Services LLC, represented by Joshua D Branson, served via ESERVICE at jbranson@kellogghansen.com

Google LLC, represented by Gary R Greenstein, served via ESERVICE at ggreenstein@wsgr.com

Spotify USA Inc., represented by Joseph Wetzel, served via ESERVICE at joe.wetzel@lw.com

Johnson, George, represented by George D Johnson, served via ESERVICE at george@georgejohnson.com

Joint Record Company Participants, represented by Susan Chertkof, served via ESERVICE at susan.chertkof@riaa.com

Signed: /s/ Benjamin K Semel